REPORT

OF THE

ROYAL COMMISSION

ON

THE TEXTILE INDUSTRY

OTTAWA
J. O. PATENAUDE, I.S.O.
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
1938

ROYAL COMMISSION ON THE TEXTILE INDUSTRY

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January 20, 1938.

The Hon. C. A. Dunning,
Minister of Finance,
Ottawa.

Dear Sir,—I have the honour to hand you herewith the report of the Royal Commission on the Textile Industry, pursuant to the Order in Council of 27th January, 1936, P.C. 223, a copy of which is attached hereto.

Your obedient servant,

W. F. A. TURGEON,
Commissioner.

P.C. 223

CERTIFIED to be a true copy of a Minute of a meeting of the Committee of the Privy Council, approved by His Excellency the Governor General on the 27th January, 1936.

The Committee of the Privy Council have had before them a report, dated 24th January, 1936, from the Minister of Finance, stating as follows:—

On the 18th instant the following telegram, dated at Sherbrooke, Quebec, January the 18th, 1936, and signed by Ant. Deslauriers, City Clerk, on behalf of the City Council of the City of Sherbrooke, was received by the Right Honourable the Prime Minister, and the Honourable the Minister of Finance:—

> "Special emergency meeting City Council held today strongly ask that your Government intervene immediately over the situation that has developed whereby our largest flat silk industries employing over a thousand hands has suddenly closed down leaving these people without employment STOP. Our City unable to cope with alarming situation and request your Government take immediate steps to remedy this condition STOP. City cannot take care of such increased unemployment."

Also on the same date representations appeared in the press to the effect that according to word received from Sherbrooke uncertainty in the textile market, due in large part to Japanese competition in certain artificial silks, had forced the Dominion Textile Company to close its rayon plant at Sherbrooke, Quebec, and that the plant closed down would remain inactive until the present situation in the industry had been clarified. The Montreal *Gazette* of January 18, also contains the following relative to the foregoing representations:—

> "G. Blair Gordon, President of the Dominion Textiles, who is in the United States at present, last night confirmed the report in reply to a telegraph query. His message added 'Hope to reopen when we can see possibility of manufacturing goods which can be sold.'"

Upon receipt of the telegrams from the City Council of Sherbrooke, an officer of the Department of Labour was immediately sent to Sherbrooke to report to the Government upon the existing conditions. The report received by the Government evidences the necessity, if the request of the City Council of Sherbrooke is to be met and the present situation in the industry clarified, for investigation much more searching and extensive than is possible at the present time either by officials of any of the Government Departments or by the Tariff Board, and that it can most effectively be made by the appointment of a Royal Commission, clothed with powers to make the inquiry as searching and extensive as may be necessary.

The Minister observes that the sudden cessation of operations in industrial establishments, especially in the winter season, at a time of widespread unemployment cannot fail to render more acute the distress and suffering of wage earners and their dependents, and also places upon municipalities and governments additional and unexpected financial burdens for relief. He is further of the opinion that industry generally and especially an industry which has had for years the benefit of the protection afforded by the customs tariff, should recognize its responsibility to carry on operations with due regard to its obligations to employees and to the public and not to arbitrarily shut down its plants.

The Minister further observes that in order to determine the responsibility of employers and to enable appropriate action to be taken, not only with regard to safeguarding the interests of employees and of the public, but also the industry itself, it is essential for the Government to be fully advised with respect to all matters surrounding the operations and conduct of the industries immediately concerned and inter-related and allied industries;

That in this connection it is essential that full and complete information be available to the Government covering a period of years with respect to costs, profits, wages, salaries and bonuses, tariff protection, investment, volume of production and all other matters and things which together with information already available to the Government will enable sound conclusions to be reached regarding the position of this and other branches of the textile industry in relation to British and foreign competition, and in particular, the extent to which the employer can reasonably and properly be expected to maintain employment over periods of temporary difficulty.

The Minister recommends that for the purpose of making the said inquiry and examination, including the causes of the existing or any other such sudden cessation of industrial operations as may be referred to him, the Honourable W. F. A. Turgeon, of the Court of Appeal of Saskatchewan, be constituted a Royal Commissioner, under Part I of the Inquiries Act, Chapter 99 of the Revised Statutes of Canada, 1927, for the purpose of making such inquiry and examination, and that such Commissioner have the special authority specified under Part 3 of the said Act.

The Minister further recommends that the Commissioner be instructed to make his report as speedily as possible.

The Committee concur in the foregoing recommendations and submit the same for approval.

(Signed) E. J. LEMAIRE,
Clerk of the Privy Council.

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CHAPTER I

INTRODUCTION

By an order of the Privy Council issued under the authority of The Inquiries Act and approved by His Excellency the Governor General on January 27, 1936, I was appointed and instructed to inquire into and to report upon certain matters pertaining to the textile industry in Canada.

As will appear from a perusal of the Order in Council, the subject-matter of the inquiry is of a far-reaching character and, in some of its aspects, quite definitely controversial. Opportunity was therefore given to various interests concerned in the issues raised to be represented before me by Counsel. In addition I was provided with the services of Counsel assisting me as Commissioner. A great number of witnesses appeared before me. Where expert evidence was required, efficient professional men of long experience gave me the benefit of their knowledge and of their researches. So, I have had the great advantage of hearing an exposition of all the facts relative to the matters inquired into, as well as an able presentation of the views of all those affected in one way or another by the investigation.

The following counsel took part in the proceedings:

J. C. McRuer, K.C., and E. Beauregard, K.C., Commission Counsel.
J. P. Lanctôt, K.C., for Special Committee of Primary Textile Industry.
R. L. Kellock, K.C., for Special Committee of Primary Textile Industry and Primary Textiles Institute.
Aimé Geoffrion, K.C., Dominion Textile Co. Ltd.
C. G. Heward, K.C., and C. T. Ballantyne, Dominion Textile Co. Ltd. and Montreal Cottons Ltd.
G. A. Campbell, K.C., and A. S. Bruneau, K.C., Canadian Cottons Limited.
F. Lajoie, K.C., Wabasso Cotton Company Ltd.
S. G. Dixon, K.C., Courtaulds (Canada) Ltd.
L. A. Forsyth, K.C., Canadian Celanese Ltd.
Thos. Tremblay, M. E. Binz Company Ltd.
Maxime Raymond, K.C., M.P., Catholic Labour Association of the City of Valleyfield.
Hormidas Gariépy, Local Union No. 2467 of Three Rivers, Que., United Textile Workers of America.
Phillippe Rousseau, Town of Montmagny.

Public sittings were held in the following cities and towns in Canada: Sherbrooke, Three Rivers, Montreal, Quebec, Montmagny, Louiseville, Valleyfield, Toronto, Dunnville, St. Catharines, Paris, Cornwall, Ottawa.

Material essential to a proper treatment of some of the matters covered by the commission was also obtained in Great Britain and in the United States of America.

OBJECT AND SCOPE OF THE INVESTIGATION

It may be said briefly that the intention of the Order in Council was to cause a thorough inquiry to be made into all phases of the textile industry in order to make available:

(1) an historical review of the industry to date; (2) an analysis of its present position; (3) a study of its interests and its duties; and (4) such further information, as added to that already available, would assist the Government of Canada in reaching proper conclusions upon questions affecting the industry, and its employees, and the public. A more detailed statement of these objects will be found at a later page of the first part of my report.

JAPANESE COMPETITION AND THE CLOSING OF THE DOMINION TEXTILE RAYON MILL AT SHERBROOKE

It appears from the Order in Council that the incident which gave rise to this inquiry was the closing by the Dominion Textile Company of its rayon mill at Sherbrooke and the consequent laying-off of a large number of employees. This action threatened to place upon the City of Sherbrooke and upon government bodies " additional and unexpected financial burdens for relief," (as the Order in Council says), and was made more serious by the fact that it occurred "in the winter season, at a time of widespread unemployment," and "could not therefore fail to render more acute the distress and suffering of wage-earners and their dependents."

I shall now recite the facts, as I find them upon the evidence, relating to the closing of the Sherbrooke mill on January 17, 1936, and its re-opening on January 29th. This will necessitate, among other things, a cursory review of some of Canada's customs tariff history and international trade history, particularly with Japan, during the years 1935 and 1936.

Between the years 1922 and 1935 inclusive, (ending on March 31st of the latter year), Canada's exportations to Japan amounted to $325,128,460, while her importations from that country, including all raw silk imported from the United States and which may be presumed to have been of Japanese origin, reached the sum of $166,509,040. The portion of this last figure accounted for by these raw silk importations is $52,191,070. This leaves an export balance in Canada's favour of $158,619,420. The high point of our trade with Japan was reached in the fiscal year 1928-1929 when our exports amounted to $42,099,968 and our imports, including raw silk coming in from the United States, amounted to $17,453,104. I may add that during that year our trade with Japan represented 3·09 per cent of our total export trade.

At the end of the fiscal year 1934-35 (March 31, 1935), the last year of the 1922-1935 period, Canada's exports to Japan amounted to $16,935,869, while her direct imports from that country were valued at $4,424,654. Adding to this latter figure the whole of our raw silk importations from the United States on the assumption that all this material was of Japanese origin, the total importations reached the sum of $8,088,715. This still left a proportionately large balance of trade in favour of Canada.

This being the state of trade between Canada and Japan in 1935, the latter country made representations to the Canadian Government in the first six months of that year with the object of obtaining a more favourable trading position. Japan's objections to the treatment it was receiving from Canada had particular reference to the imposition of what was known as the "currency dumping duty" and the fixed valuation for duty purposes provided by Order in Council under the provisions of Section 43 of the Customs Act as amended by legislation assented to on September 22, 1930. These two grounds of complaint will require a brief explanation at this point.

The par value of the Japanese yen in cents, when both the dollar and the yen are at their gold parity, is 49·85 cents. The dollar began to depreciate in September, 1931, and the average value of the yen for the month of December was 53·54 cents. But after that time the situation changed. The yen went downwards more rapidly, and further than the dollar in respect to gold, and its relation to the dollar at half yearly periods from January, 1932, to November, 1937, was as follows:—

AVERAGE EXCHANGE QUOTATIONS OF JAPANESE YEN IN MONTREAL

(Par of exchange—49·85 cents)

	Cents
January, 1932	42·90
July, 1932	31·75
January, 1933	23·96
July, 1933	30·93
January, 1934	30·46
July 1934	29·59
January 1935	28·53
July, 1935	29·28
January, 1936	29·01
July, 1936	29·35
January, 1937	28·55
July, 1937	28·92
November, 1937	29·07

As it declined in respect to the dollar, the yen became affected by the currency dumping rule, then imposed by Order in Council, but now authorized by section 6 ss. 9a of the Customs Tariff Act as amended retroactively in 1933. This began about the end of December, 1931, the yen having fallen below its dollar parity at that time and remaining in that position, as the above table shows, ever since. This currency dumping rule does two things: it places a value on the yen for assessment purposes in excess of its actual exchange value; and then it adds the difference between these two values to the duties collected. Also, beginning on December 12, 1931, a minimum fixed valuation of $1.25 per pound was placed upon all imported artificial silk fabrics, under the authority given the Government by section 43 of the Customs Act. This meant that the duty was levied on the actual value of the goods if this value exceeded $1.25 per pound, but was levied on an arbitrary value of $1.25 if the actual value was less than this figure. Thus, for instance, an article the real value of which was 25 cents a pound or 70 cents a pound, (to mention two figures submitted to me), would be assessed on a valuation of $1.25, but an article of the real value of $1.50, having regard to the proclaimed rate of exchange, would be assessed at $1.50.

In a later chapter of this report will be found a more extended reference to the nature and the operation of the currency dumping rule and of the provisions of section 43. For the purposes of the subject I am now dealing with, the above brief explanation will suffice.

In order to illustrate the effect of the Customs Tariff on artificial silk goods at the time the Japanese Government drew the attention of the Government of Canada to what it considered to be an unsatisfactory situation, I here set out, as an example, the treatment which would have been accorded a certain piece of 27-inch brocaded rayon taffeta of 1,000 yards, weighing 109·4 lbs. and invoiced at 144·3 yen, filed as part of exhibit 868, if it had been imported in 1935, before the month of August, and its laid down cost in Canada, assuming that Japanese prices and the current rate of exchange were the same. This article was in fact imported in July, 1936, and I shall have occasion to refer to it again.

	Prior to August, 1935 Value for Duty Based on Minimum of $1.25 per Pound
Invoice value of fabric and packing	$ 43 60
Value for duty	136 75
Duty ad valorem—40 per cent less 10 per cent	49 23
Specific duty—40 cents per pound	43 76
Packing—¥ 4·5—20 per cent less 10 per cent	40
Excise tax—3 per cent	6 90
Dumping duty (under Sec. 6 (1))	68 37
Currency dumping duty	......
Total duties and excise	168 66
Freight and insurance	5 07
Laid down cost of fabric	$217 33

These total duties and excise of $168.66 represent a tax of 386¾ per cent on the invoice value of $43.60.

It will be noticed that there is no specific charge in the above illustration for currency dumping. This is explainable by the fact that the goods being invoiced at less than $1.25 per pound would have been assessed at that higher figure, in which case the currency dumping rule did not apply, probably because the fixed valuation of $1.25 affected importations from all countries, other than those entitled to the British Preferential Tariff, including those countries whose currency was not depreciated, as, for example, the Netherlands. The only dumping duty assessed upon goods subject to the fixed valuation was what might be called the " fair market value " dumping duty provided for by section 6 (1) of the Customs Tariff Act. The point illustrated in the above example is that, while the real value of the goods was only about 40 cents a pound, they were assessed at a value of $1.25 under the fixed valuation rule.

It should be pointed out here that the protests of the Japanese Government were of a general character and not confined to textiles. The great bulk of Japanese artificial silk importations were of a value under $1.25 a pound and subject to the fixed valuation rule and not to the currency dumping charge. But this currency dumping charge affected all goods, of a class or kind made in Canada, coming in from Japan and not subject to the fixed valuation. Our principal articles of importation from Japan in 1934 and the first half of 1935 were: oranges, rice, raw silk, china tableware, tea, toys and dolls, fishery products, manufactured articles of real silk, and containers.

Japan's complaint was that all her exportations to Canada of a class or kind made in Canada were affected by either the fixed valuation or the currency dumping duty. Her representations were first made in March, 1935, and negotiations were continued until about the middle of July.

In July, the Canadian Government proposed to better Japan's trading position by offering two concessions: (1) providing that goods of a class or kind not made in Canada should be valued for customs duty purposes at the current rate of exchange, which was then about 29·28 cents, instead of at the proclaimed rate of 49·85 cents; (2) providing that, while goods of a class or kind made in Canada should continue to be entered for the purposes of ordinary duty at the proclaimed rate of 49·85 cents, they might be entered for special duty (that is dumping duty) at a rate which would make allowance for the rise in the level of prices in Japan, and which, at the time the proposal was made, would have meant a value for the yen of 41·51 cents. No concession was offered in respect to fixed valuations under Section 43 of the Customs Act. These fixed valuations, as I have already said, affected practically all artificial silk goods imported from Japan.

The Japanese Government considered these proposals insufficient, and proceeded to take action. On July 20, 1935, a surtax of 50 per cent was imposed on the following Canadian goods when imported into Japan:—

Wheat.
Wheat flour.
Flour of high gluten.
Starch.
Mechanical pulp for paper making.
Other pulp for paper making.
Wrapping paper and match paper—
 excluding tissue paper.
Felt for paper making.
Wood, cut, sawn or split—
 White cedar—Red cedar.
 Spruce—Firs.

The Canadian Government retaliated on July 22, by an Order in Council declared to become effective on August 5th imposing a surtax of 33⅓ per cent on all goods of Japanese origin, (which included Japanese raw silk coming in from the United States), imported into Canada.

The effect of these two measures was to erect practically insurmountable trade barriers between Canada and Japan, except in respect to Canadian exportations not included in the list of goods affected by the Japanese 50 per cent surtax.

I may state that, notwithstanding this action and the reprisal in respect to surtaxes, the Canadian Government did, on July 20, 1935, provide by Order in Council that the value for duty purposes of the yen should be fixed at 41·51 cents, and that this value remained unchanged until December 31.

Turning again to the piece of 27-inch brocaded rayon which I have already used to illustrate the effect of the customs and excise taxes during the first half of 1935, I now set out the treatment this article would have received had it been imported into Canada during the last five months of that year, and assuming the same invoice value, that is the same Japanese price and the same rate of exchange.

	During period when surtax applied August 5-December 31, 1935 with fixed valuation of $1.25
Invoice Value of Fabric and Packing	$ 43 60
Value for Duty	136 75
Duty Ad Valorem—40 per cent less 10 per cent	49 23
Specific Duty—40 cents per pound	43 76
Packing—¥ 4·5—20 per cent less 10 per cent	40
Excise Tax—3 per cent	8 27
Dumping Duty (Under Sec. 6(1))	68 37
Surtax	45 59
Currency Dumping Duty	—
Total Duties and Excise	215 62
Freight and Insurance	5 07
Laid down cost of fabric	$ 264 29

The result in this case is a tax of 494½ per cent on the invoice value of $43.60.

The situation between the two countries remained unchanged until November, 1935, when negotiations were resumed on the initiative of the Government of Canada. These negotiations led to a settlement which became effective on January 1, 1936, and which was based on the following considerations: (1) the Japanese surtax of 50 per cent and the Canadian surtax of 33⅓ per cent were cancelled, (2) the fixed valuations under Section 43 were also cancelled except those on rubber footwear and certain other articles in which Japan was not interested, and it was provided that in the case of the Government intending to exercise, at any future time, the power conferred upon it by Section 43, Japan should have the right to appeal on the question to the Tariff Board; (3) the current rate of exchange of the yen was made applicable for duty purposes to goods not of a class or kind made in Canada, (4) on other goods the yen was to be valued at 39·5 cents for 1936, this being its average exchange value for the five years 1930 to 1934 inclusive, the figure to be revised each year in conformity to the average of the five preceding years.

Under this new arrangement, the piece of 27" brocaded rayon taffeta to which I have already made two references would have been assessed, upon entry into Canada in July 1936, in the following manner:—

	July 1936 Value for Duty based on invoice price converted at proclaimed rate of 39·5 cents per Yen
Invoice Value of Fabric and Packing	$ 43 60
Value for Duty	57 00
Duty Ad Valorem—40 per cent less 10 per cent	20 52
Specific Duty—40 cents per pound	43 76
Packing—¥ 4·5—20 per cent less 10 per cent	32
Excise Tax—3 per cent	3 64
Dumping Duty (Under Sec. 6 (1))	..
Currency Dumping Duty	15 18
Surtax	..
Total Duties and Excise	83 42
Freight and Insurance	5 07
Laid down cost of fabric	$ 132 09

In this third case of this importation from Japan we have a tax of 191⅓ per cent on the invoice value of $43.60.

At this time (January 1938) the total tax on a similar importation would be 143 per cent. This decrease since July 1936 is accounted for by the fact that the difference between the proclaimed rate for 1938 (29·5 cents) and the current rate (about 29 cents) being less than 5 per cent, no currency dumping duty is applicable.

In the foregoing paragraphs I have referred to the terms "goods of a class or kind made in Canada" and "goods of a class or kind not made in Canada." The difference between these two classifications lies in the difference accorded them by our customs laws. Goods of the first class are subject to the dumping duty provisions of section 6 of the Customs Tariff Act, while those of the second class are not subject to these provisions.

In the light of the foregoing review of the trade and tariff relations between Canada and Japan in recent years, it will be easier now to examine and to understand the events of January, 1936, and particularly the closing of the Dominion Textile Company's rayon mill at Sherbrooke.

The agreement entered into between Canada and Japan, which became effective on January 1, 1936, and which lowered materially the taxation imposed on importations of Japanese artificial silk, was not welcomed by Canadian manufacturers, although it left them in a more advantageous tariff position towards Japanese competition than manufacturers of artificial silk in the United States.* During the time of the deadlock between the two countries in the Fall of 1935, they opposed the making of any concession by the Canadian Government, although, as pointed out, the barrier against Japanese importations was practically prohibitive. Thus, the president of Canadian Cottons Ltd., manufacturers of artificial silk goods at Milltown, N.B., wrote to the Minister of Finance on November 29, 1935:—

> "I am sure that when you have had time to study the Japanese situation you will satisfy yourself that the making of any trade concessions to Japan, other than those that are already accorded her, will mean that the industries of this country will languish and the unemployment situation will become very much worse than it is at the present time."

One exception must be made to the statement that the Canadian manufacturers opposed the making of any change in the tariff rates by the Canadian Government. This exception is in the case of raw silk. The companies manufacturing silk products were themselves prejudicially affected by the action taken

* Since this statement was written the situation has changed. United States rates are now (January 20, 1938) higher than the corresponding Canadian rates. This is due entirely to the working of the present Canadian method of regulating the value of the yen; which is referred to later in this report.

by the Canadian Government in so far as its 33⅓ per cent surtax applied to Japanese raw silk—a raw material. They took action to have the Government exempt raw silk from this surtax. As Mr. Douglas Hallam, Secretary of the Primary Textiles Institute and also of the Silk Association, says in one of his letters dated July 31, 1935:—

"We have put the question of Japanese raw silk before the Government by telephone, telegram and memorandum."

But these representations were not acceded to, and, save in respect to this item of raw silk, the Canadian industry does not appear to have wanted any change made in the Canadian tariff, which as noted above, had become practically prohibitive. This is indicated sufficiently in Mr. Hallam's evidence and in his letters filed. The industry therefore expressed alarm at the agreement with Japan concluded by the Government of Canada and put into effect on January 1, 1936.

This brings me to the Sherbrooke incident.

Shortly after January 1, 1936, the Canadian textile manufacturers took steps to interview the Government. An interview was arranged for January 14. The delegation was received by the Ministers of Finance, Trade and Commerce, and of National Revenue. It consisted of the following representatives of the industry:—

H. W. Lundy, of Penmans Ltd., Chairman of the Primary Textiles Institute, representing makers of Knit Goods, Underwear and Hosiery.

W. P. MacDougall, of Belding-Corticelli Ltd., representing makers of Threads, Twists, Braids, Ribbons and Hosiery.

R. G. Tolmie, of Canadian Cottons Ltd., representing makers of Cotton Yarns and Piece Goods, Rayon Fabrics.

N. Linnett, of Courtaulds (Canada) Ltd., representing makers of Rayon Yarns.

J. H. Marx, of Associated Textiles of Canada Ltd., Chairman of the Broad Silk Section of The Silk Association of Canada, representing makers of Silk and Rayon Fabrics.

J. G. Dodd, of Paton Mfg. Co., representing makers of Worsted Yarns and Woollen and Worsted Cloth.

G. B. Gordon, of Dominion Textile Co. Ltd., representing makers of Cotton Yarns and Piece Goods, and Rayon Fabrics.

P. R. Watson, of Grout's Ltd., and Valleyfield Silk Mills, representing makers of Silk and Rayon Fabrics.

Brinley Taylor, of Courtaulds (Canada) Ltd., representing makers of Rayon Yarns.

Douglas Hallam, Secretary, Primary Textiles Institute.

On January 16, two days after the interview, Mr. J. H. Marx, one of the delegation and chairman of the broad silk division of the Silk Association of Canada, drafted a report of the proceedings at Ottawa. This report was circulated to the industry on the following day by Mr. W. M. Berry, Mr. Hallam's assistant. It shows, that before interviewing the Ministers, the delegation had a meeting with the Commissioner of Customs and some other members of the departmental staff. After this meeting the delegates made up their minds that the proper course for them to pursue was to ask the Government to revert to the policy of a fixed valuation on artificial silk goods under Section 43 of the Customs Act, the abolition of which had been one of the most important considerations of the agreement with Japan.

The report shows that, in support of their plea for action, the delegates made a number of representations of fact to the Government. As proof of the imminence of disastrous Japanese competition, they told the Government that a certain Japanese 27-inch rayon taffeta was being offered for sale by an importer at 13½ cents per yard for February delivery at Toronto, duty paid. The Canadian price on this cloth, according to the report, was 18½ cents and its actual cost about 17 or 17½ cents. The delegation asserted that all branches of the textile industry were alarmed at the situation; that the whole trade of the country was upset, meaning the business of manufacturers, wholesalers and retailers; that deliveries were being cancelled and no new orders placed; that certain mills had been closed. In fact all this expressed alarm seems to have been based on little more than the one quotation of 27-inch rayon taffeta just referred to, unless it can be said, as seems more likely the case, that the terms of the new trade agreement with Japan were themselves a subject of discontent and uneasiness in the industry since they meant a considerable reduction in the duties imposed on Japanese goods as compared with those prevailing in the fall of 1935. On this latter point, however, I should point out that these duties must still have appeared high to a consumer, as in the example I have given of a piece of 27-inch brocaded taffeta imported in July, 1936, they amounted to 191⅓ per cent of the invoice price.

According to the report and to the evidence of some of the delegation who appeared before me, the Ministers did not promise any immediate action. The Minister of Finance expressed the opinion that the commotion was probably caused in a large measure by buyers taking advantage of the uncertainties of the situation following the coming into effect of the new trade agreement to bring prices down. He advised the delegation that the manufacturers should not give way to alarm on account of the reports made to them and which had been discussed, but that they should wait and watch developments. This appears in the light of future events to have been sound advice. Mr. Marx's report to the industry ends with the following remarks:—

"We also point out that these three men were very favourably inclined to keeping mills in Canada in operation, but that we have to bring proof first. During this period any aggravation of the situation by over-production should be avoided."

In so far as Mr. Marx is concerned, this is the place, I think, to deal with his position in these proceedings, because here the closing of another mill is involved. Mr. Marx was, at the time of the interview with the three members of the Government (and, I think, still is), president of Associated Textiles of Canada, Ltd., manufacturers of silk and rayon fabrics, whose mill is at Louiseville, Quebec. This mill was closed on December 14, 1935. In the report of the interview which he prepared, Mr. Marx stated that he told the Ministers that this closing had been rendered necessary by the fear of Japanese competition which, he said, was deterring his customers from placing orders for their requirements. But the exchange of notes between the Governments of Japan and Canada, setting out the terms of the new agreement took place on December 26 only, and was made public on December 28. In another part of his report, however, Mr. Marx asserts that there was at that time an over-production of textile goods in Canada and recommends curtailment. Thus he says:—

". . . . . . Japan is well equipped and has been making every type of staple fabrics that is being produced in Canada at the present time, and in view of the fact that there is serious over-production in the textile group to-day, there is no doubt that the condition for the next four months will be worse due to the goods coming in from Japan. We recommend, as a group, that curtailment of production of each individual mill would be a safeguard for that mill until we have been able to prove to the present Government the seriousness of these importations from Japan."

The evidence regarding the production of silk and rayon fabrics in Canada, taken from the reports made to the Silk Association of Canada by the reporting members of the association, shows in fact that the stock of manufactured goods on hand at the end of December, 1934, totalled 2,849,442 yards, while at the end of December, 1935, the total was 3,926,681 yards.

I may say that these figures do not include the production of the Dominion Textile Co. Ltd. which did not report to the association, nor do they include the rayon production of Montreal Cottons Limited and Canadian Cottons Limited.

What happened in fact is that, four days after the interview, on January 18, 1936, Mr. Marx reopened the Louiseville factory and it has been operating ever since. More than that, his company has recently established a subsidiary at Coaticook, Quebec, known as Eastern Canada Textile Ltd., which began manufacturing rayon print fabrics on October 15, 1937.

I shall now examine the course taken by the Dominion Textile Company after the interview of January 14.

One of the members of the delegation present at the interview was Mr. G. Blair Gordon, Managing Director of the company, who gave evidence before me. Mr. Heward, in presenting the argument on behalf of the company on this part of the case, states, as the fact is, that Mr. Gordon "has made it clear throughout his evidence that the decision to suspend operations (at Sherbrooke) was made by him and by him alone and he accepts full responsibility for that decision."

This makes it necessary for me to make frequent reference to Mr. Gordon personally in dealing with the Sherbrooke incident. It is not disputed, though, that in the action which he took he was acting within his authority as Managing Director of the company.

The rayon fabrics of the company are manufactured in the grey at Sherbrooke and are processed and finished at the company's print works at Magog, Quebec. (I am leaving out of this reference the rayon production of the Montreal Cottons Limited which is controlled by the Dominion Textile Company and which does its processing in the vicinity of its manufacturing plant.) Exhibit 135 shows the company's stocks on hand in December, 1934, and January, 1935, as compared with the same two months in 1935 and 1936. The figures are as follows:

DOMINION TEXTILE COMPANY LIMITED—STOCKS OF RAYON ON HAND—(EXPRESSED IN YARDS)

—	Stocks in Grey at Verdun	Stocks in Grey in Process and Finished in Magog	Total Stocks on Hand
1934			
December 8th	384,018	902,640	1,286,658
December 15th	345,054	776,520	1,121,574
December 22nd	163,759	1,067,360	1,231,119
December 30th	204,013	743,640	947,653
1935			
January 5th	157,414	969,800	1,127,214
January 12th	118,379	1,035,400	1,153,779
January 19th	157,266	984,200	1,141,466
January 26th	160,084	989,320	1,149,404
February 2nd	156,097	1,025,480	1,181,577
—	Stocks in Grey at Sherbrooke	Stocks in Grey in Process and Finished in Magog	Total Stocks on Hand
1935			
December 7th	418,947	1,345,240	1,764,187
December 14th	422,434	1,521,160	1,943,594
December 21st	495,019	1,545,160	2,040,179
December 28th	638,953	Inventory	no figure
1936			
January 4th	581,436	1,459,000	2,040,436
January 11th	630,183	1,423,720	2,053,903
January 18th	736,709	1,381,000	2,117,709
January 25th	688,246	1,337,840	2,026,086
February 1st	707,921	1,250,880	1,958,801

It will be seen, therefore, from these figures of stocks on hand furnished by the Dominion Textile Company and those of the Silk Association of Canada already given, that Canadian manufacturers of rayon fabrics had apparently been producing these goods in the latter part of 1935 in volume larger than the requirements of consumption of the Canadian market. It also appears from the evidence that the Sherbrooke mill was turning out grey cloth more rapidly than the Magog print works could handle it, and that additional machinery was being installed at Magog.

At the time of the happenings with which I am now dealing, Mr. F. R. Daniels was manager of the grey mill operations of the company, and Mr. J. G. Kershaw was the company's acting general superintendent at the Sherbrooke Branch.

Mr. Kershaw testified that in the month of December, 1935, the Sherbrooke mill had been running 55 hours per week. On December 13, Mr. Daniels instructed him by letter that from then on the mill would not run more than 48 hours per week. The letter said the cause of this curtailment was " merely, for the time being, that the print works will not be able to handle more than this production."

On January 13, 1936, Mr. Daniels and Mr. Kershaw met at the head office of the company at Montreal. There Daniels told Kershaw that it would be necessary further to curtail production at Sherbrooke on account of the shortage of machinery at Magog. Mr. Kershaw says at this time he had no knowledge of any curtailment being rendered necessary by reason of Japanese competition.

The interview at Ottawa took place on the next day, January 14. As Mr. Marx's report shows, it ended without having secured from the Ministers any promise of action. Rather, the message which the delegation carried away was the advice of the Minister of Finance not to be unduly disturbed by what was, after all, only very meagre evidence of a threatened Japanese " invasion," but to take time to see how the situation would develop.

But Mr. Gordon took action the next day, January 15. He wrote to Mr. Kershaw at Sherbrooke as follows:—

" You will be receiving instructions from Mr. Daniels to close down operations in the Rayon Division Friday night, January 17, as this action is necessary in view of the threatened invasion of the Rayon Market in Canada by Japanese goods at the present time. We have made representations in Ottawa in the proper quarters, but, until some action is taken by the Government to stabilize the situation, it is quite impossible for us to book any further orders or to continue production for stock purposes."

The next day, January 16, Mr. Gordon wrote to Mr. H. B. McKinnon, Commissioner of Tariff, Department of Finance, Ottawa. The pertinent part of his letter is in the last two paragraphs:—

" Since returning from Ottawa, I have reviewed our own rayon situation carefully, and, in view of our present stocks and the doubtful validity of present orders on our books, I can only conclude that it would be sheer folly to continue producing more rayon goods in the Rayon Division of our Sherbrooke Branch. I have, therefore, made arrangements for that mill to cease operations to-morrow night; and it will have to remain closed until we can have some reasonable grounds for assuming that goods produced can eventually be sold at a price level in line with cost of production. The mill in question employs between 500 and 600 hands, or approximately 50 per cent of the total employees in the Sherbrooke Branch of the Company.

" I am hoping that in spite of the rather indefinite promises of immediate action made by Mr. Dunning, something will be done to stabilize the whole situation so far as landed values on all types of textiles from Japan are concerned. I think the idea of waiting for the situation to develop is tantamount to watching a fire make headway before attempting to bring it under control, and I am afraid the longer the Government holds off the more difficult it will be in the end to make the changes which are absolutely necessary if our whole industry is to be kept in the picture."

In the meantime, on January 15, Mr. Daniels wrote as follows to Mr. Kershaw:—

"DOMINION TEXTILE COMPANY LTD.,
Sherbrooke Rayon Division,
Sherbrooke, Que.

DEAR SIRS,—Further to our conversation of Monday regarding short time operations. Since that date further complications have arisen which necessitate more drastic action You will therefore post the following notice in several prominent places throughout the Rayon mill:—

SHERBROOKE, QUE., January 16, 1936.

DOMINION TEXTILE COMPANY LIMITED

SHERBROOKE BRANCH—RAYON DIVISION

NOTICE

This mill will close down on Friday January 17 and will remain closed indefinitely.

(Signed) G. B. GORDON,
Managing Director.

Yours truly,
DOMINION TEXTILE COMPANY LIMITED
F. R. DANIELS,
Manager of Grey Mill Operations."

This notice stating, as it does, that the mill would close down on January 17 and remain closed "indefinitely," was posted up according to instructions.

The number of people thrown out of work was about 400.

On January 18th the City Council of Sherbrooke sent the telegram to the Prime Minister which is set out in the Order in Council creating this Commission:—

"Special emergency meeting City Council held to-day strongly ask that your Government intervene immediately over the situation that has developed whereby our largest flat silk industries employing over a thousand hands has suddenly closed down leaving these people without employment STOP. Our City unable to cope with alarming situation and request your Government take immediate steps to remedy this condition STOP. City cannot take care of such increased unemployment."

This telegram states that the number of persons put out of work was over one thousand. It was suggested on the argument that the mention of this larger number instead of 400 was probably explainable by the fact that the Council might have assumed from the report made to it that the closing order applied to the Company's cotton mill as well as to its rayon mill. The rayon mill was closed, but the cotton mill remained in operation. The fact that 400 men were deprived of their means of livelihood is, of course, less serious than would have been the case if the number had been 1,000, but it created nevertheless a grave situation in the City of Sherbrooke. A large number of persons became unemployed and the notice given them did not convey much hope, because it said simply that the mill would remain closed "indefinitely." It cannot be disputed that the sudden closing of a mill employing 400 persons in a city like Sherbrooke is a matter of great concern. Mr. Gordon himself pointed this out in an article intituled "Our Textile Industry" which he published in the "Manual of the Textile Industry of Canada, 1934," where he says:

". . . . The 'Main Street' of many a town reflects faithfully the activity of the textile mill or mills within its limits. The closing down of a plant in such a community is not only a major calamity to those close at hand, but also leaves its marks in other distant points."

Immediately following the closing of the mill on January 17th, the news of the event received publicity in the newspapers, when as the Order in Council says:

"Also on the same date (January 18th) representations appeared in the press to the effect that according to word received from Sherbrooke uncertainty in the textile market, due in large part to Japanese competition in certain artificial silks, had forced the Dominion Textile Company to close its rayon plant at Sherbrooke, Quebec, and that the plant closed down would remain inactive until the present situation in the industry had been clarified.

The Montreal Gazette of January 18th, also contains the following relative to the foregoing representations:—

> "G. Blair Gordon, President of the Dominion Textiles, who is in the United States at present, last night confirmed the report in reply to a telegraph query. His message added 'Hope to re-open when we can see possibility of manufacturing goods which can be sold.'"

Regarding the *Gazette's* statement, the evidence shows that on January 17th, Mr. Gordon, answering an inquiry from that paper, sent the following telegram:

> "Report correct. Mill employs about five hundred of both sexes. Hope to re-open when we can see possibility of manufacturing goods which can be sold."

All of Mr. Gordon's written statements taken together: his letter to the Commissioner of Tariff, his letter to Mr. Kershaw, his telegram to the *Gazette,* and the wording of the notice he caused to be posted in the mill, seem, in my opinion, to convey no other impression to one reading them than that he was dissatisfied with the Government's tariff policy and with the response given by the Ministers to the demands of the industry at the interview of January 14th, and that his intention was to keep the mill closed until Japanese competition was made impossible by action of the Government towards meeting those demands, or, perhaps, was shown by lapse of time to be non-existent or ineffective. And, there is no doubt, according to Mr. Marx's report, that the action demanded of the Government was the abandonment of the agreement with Japan by a reversion to the policy of fixed valuation.

Mr. Gordon decided on January 23rd to re-open the mill. But unfortunately he did not write to the Commissioner of Tariff on this occasion to inform him, and the Government through him, of his decision. Nor can I find that he took any other steps, in the press or elsewhere, to make his intention known to the public. So, on the one hand, it is quite true, as Mr. Heward points out, that Mr. Gordon's decision to resume operations was not prompted by the creation of this Commission, which took place on January 27th, but, on the other hand, it is equally true that on January 27th the Government had no knowledge that Mr. Gordon intended to re-open the mill on January 29th, the date on which the re-opening took place, or at all.

I have said that Mr. Gordon decided on January 23rd to re-open the Sherbrooke Mill. The re-opening was set for January 29th and took place on that day. Before dealing with the actual decision to re-open, it will be necessary to relate briefly some of the incidents which occurred between the closing on January 17th and Mr. Gordon's decision to re-open arrived at on January 23rd.

The evidence shows that Mr. C. B. Howard, Member of Parliament for Sherbrooke County, interviewed the Sherbrooke City Council and the Government concerning the situation created by the closing of the mill, and that on January 21st he had a meeting at Montreal with Mr. J. G. Dodd who is described as the head of the selling department of the Dominion Textile Company. At this meeting two matters were discussed. As to the closing of the mill, Mr. Dodd said that it had been rendered necessary by Japanese competition. Mr. Howard then drew Mr. Dodd's attention to the plight of a number of the employees put out of work and of their dependents. The people in question had come from Verdun and had not been in Sherbrooke long enough to be entitled to relief from the City. Thereupon, Mr. Dodd telephoned to the Company's Manager in Sherbrooke and steps were taken by the Company to look after these people by guaranteeing their grocery accounts.

The fact is that the Company's rayon manufacturing had formerly been taking place at Verdun. In September 1935, the Verdun plant was closed and the machinery removed to Sherbrooke where the operations have since been carried on. At the time this was done a number of operatives with their families (about 70 families in all), were removed to Sherbrooke and were put to work there. These people formed a large proportion of those affected by the closing of the mill, and as they had not been residents of Sherbrooke for the period of six months required by law, they were not qualified for relief and were left to their own resources. According to Mr. Howard's evidence about 40 of these families had no means of subsistence. These are the families who were assisted by the Company after Mr. Howard's interview with Mr. Dodd.

I find next that Mr. Kershaw telephoned to Mr. Gordon on January 23rd, the day the latter returned from the United States, calling his attention to the distress in which the families from Verdun had been placed by the closing of the mill. He recommended that the mill be re-opened to give these people employment. Mr. Gordon agreed to this, and on the next day Mr. Bishop, the comptroller, sent the following letter to Mr. Kershaw:

"Dear Sir,

Further to 'phone conversation between Mr. Gordon and yourself *re* starting up the Rayon Division next Wednesday. Please follow the following schedule for the next two weeks when further instructions will be sent you.

RA 1—3 days per week and commence to run looms off.

RA 2—Do not run any looms at all on this style unless they are mixed up with other styles in a Weaver's set.

RA 3—3 days per week. Do not increase number of looms.

RA 6—Same as RA 3.

RA 16—Print Dept. is sending you Purchase No. 7589 calling for 40,000 yards. Prepare to put this in looms now running on RA 1.

It is understood that there is to be no night work at all and that the above covers the week ending February 1st, and week ending February 8th, only.

Please acknowledge these instructions.

Yours truly,

DOMINION TEXTILE COMPANY LIMITED.

C. A. Bishop,

Comptroller."

There followed a telephone conversation between Mr. Kershaw and Mr. Gordon about the practicability of putting the article described as RA 16 on the looms, and as a consequence, the comptroller sent a second letter to Mr. Kershaw dated January 25:—

"Dear Sir,—Further to ours of the 24th instant.

"Please disregard our instructions about putting the RA 16 in the C & K looms now on RA 1 as it does not require a Drop Box loom, and put it on Stafford looms.

"We understand that before receiving our letter, you advised all your help to report next Wednesday, therefore it will be in order to run the RA 2 three days next week and then stop it until further notice.

"Yours truly,

DOMINION TEXTILE COMPANY LIMITED.

C. A. Bishop,

Comptroller."

These letters do not make it clear whether or not the intention at the time they were written was to keep the mill in operation permanently, but in any event the fact is that it has been operating ever since.

In the meantime, the Order in Council creating this Commission was passed on January 27.

Mr. Heward argues that the closing of the mill was intended to be only temporary. In making this assertion he refers to certain evidence given by Mr. Gordon. The statement in his brief is as follows, on page 75:—

"What must be clearly borne in mind, however, is that the shutdown was not and was not intended to be a permanent shutdown. From the outset it was intended to be a suspension of operations in order to allow the management to ascertain where they stood.

"If it had been intended to permanently cease production in the rayon division of the Sherbrooke plant a very different course would have been adopted, that is, the looms instead of being stopped would have been run off, and when run off would not have been refilled.

"By suspending operation of the looms, however, the Company was put in a position of being able, when the situation developed and became clarified, to run off all the looms, or to run off some and to continue others, or to continue all the looms, in accordance with what in their judgment after examination of the situation was considered to be prudent."

I do not think this statement makes the situation any clearer than it is made in Mr. Gordon's letter to the Commissioner of Tariff and in the notice to the workmen posted in the mill and which stated that the mill would remain closed "indefinitely." Mr. Heward says in effect that the Company kept itself in a position of being able to resume work in whole or in part or to stop work after running off the material which had been left on the looms, "when the situation developed and became clarified." It seems to me in the light of all that was written at the time of the closing that the clarification and development referred to can mean only action to be taken by the Government to accede to the demands of the manufacturers or perhaps, to repeat what I have already said, a failure of Japanese competition to make itself felt.

Regarding the days the mill remained closed and the actual hours of work lost, Mr. Heward makes the following statement which correctly sets out the situation. It is to be found at page 62 of his brief:—

"The actual usual working period during which operations were suspended was very short. The rayon division was closed for eleven days only, but as at the time of the suspension of operations the rayon division was working only forty-eight hours per week, that is, four days of ten hours and one day (Friday) of eight hours, with no work on Saturday, and as the eleven days included two Saturdays, two Sundays and a legal holiday, namely, the day of the late King's funeral, the working days which were lost by the operatives as a result of the suspension of operations were five days of ten hours each and one day of eight hours, or a total of fifty-eight hours work, which is three hours more than the normal working week. The actual amount of time lost by the operatives was therefore small."

Coming now to Mr. Gordon's evidence regarding his decision, arrived at on January 23, to reopen the Sherbrooke mill, I find that he refers to a concurrence of several reasons actuating him. There was the condition of the people in distress in Sherbrooke, and from a business point of view, there was a certain appraisers' bulletin issued by the Department of National Revenue to its Customs Collectors, and following upon this the cancellation, by the Toronto firm in question of the quotation on a 27-inch Japanese rayon taffeta landed at $13\frac{1}{2}$ cents f.o.b. Toronto, duty paid, which had been referred to at the interview with the Ministers on January 14.

The departmental bulletin, or letter of instructions, above referred to, is dated January 10, 1936. Its evident intent is to prevent undervaluations (fictitious valuations) in invoices of Japanese shipments. It reads as follows:—

"Sir,—It has come to the attention of the Department that on shipments of artificial silk fabrics of Japanese origin exporters may show on Customs invoices lower values than previously certified to.

"You are requested to carefully appraise importations of the above mentioned goods. In this connection you may refer to Customs invoices covering importations of similar goods made during 1934 and 1935, or examine relevant data at the offices of the importer, and if it is found that the values certified to are not correlative the importer should be invited to give or obtain a statement as to the reason for any reduction in values certified to.

"I am enclosing a sample—a 27-inch fabric weighing approximately 9 yards per pound, which was imported during 1935. The value certified to was approximately Yen 8.00 per a piece of 30 yards.

"Please report to the Department entry numbers, number and amount of amending entries, and also your findings in respect to fair market value.

"Please advise immediately all known importers of fabrics that importations will be subject to appraisal, and they may be called on to amend entries.

"Yours truly,

"For Commissioner of Customs."

Giving evidence on April 8, 1936, Mr. Gordon said that the issuing of this letter to collectors of customs had had "very effective action in certain quarters."

In any event the fact is that the Sherbrooke mill resumed operations on January 29 and has been running ever since, apparently with results satisfactory to the company.

According to Mr. Marx's report of the interview of January 14, this bulletin, or letter, which is dated January 10, was before the delegation in the meeting they had with the Commissioner of Customs before seeing the Ministers and was discussed at that time. He sets out the purport of it in his report. However, Mr. Gordon's attention was not brought to it at that occasion, apparently, and he says that he did not become acquainted with the tenor of the document until his return from the United States on January 23.

The Order in Council also directs me to inquire into and to report upon any other cessation of operations brought to my notice. I have already dealt with the closing of the Associated Textiles of Canada's mill at Louiseville between December 14 and January 18. The only other case of a similar nature was that of the mill of the Canadian T. S. R. of Lyons Ltd. at Cap de la Madeleine, Quebec. After inquiring into this incident I find it was not inspired by any dissatisfaction of the company with the tariff policy of the country, but was impelled by financial causes. The company has since been reorganized under the name of Laurentian Silk Mills Ltd. and the plant is now in operation.

It will be of interest now to look into the developments of the year 1936 and as far as possible into 1937, to see to what extent, if at all, the fears expressed to the Government by the Canadian manufacturers of textiles were well founded.

The great bulk (approximately 90 per cent) of artificial silk yarns used by Canadian manufacturers is made by Canadian Celanese Ltd. at Drummondville, Quebec, and by Courtaulds (Canada) Ltd. at Cornwall, Ontario. The Celanese Company manufactures acetate yarns and uses the whole of its product for its own production of fabrics. It does not sell to other processors. The Courtaulds Company makes only viscose yarns which it sells to processors and does no other manufacturing. This company also imports a certain quantity of acetate yarns from Great Britain for sale to manufacturers of fabrics. A rather fair indication of the state of artificial silk manufacture in Canada may be drawn from a glance at the affairs of these two companies.

The Textile Journal of July 9, 1937, carries an announcement by Courtaulds (Canada) Ltd. of an "immediate expansion program involving the expenditure of $3,000,000 in new buildings and equipment." This program is now under execution. The announcement adds that this expansion includes the erection of a new building with spinning and yarn production equipment necessary for additional production. It is stated that this new unit will increase Courtaulds' production by 42 per cent.

The same publication in its number of November 12, 1937, announces what it calls a further remarkable expansion of the plant of Canadian Celanese Ltd. at Drummondville, Quebec. It refers to a statement by the president of the company of an expenditure of $900,000 on new machinery and general equipment during the preceding twelve months.

Regarding recent downward revisions of the Customs Tariff, the following interesting statement is made concerning the Celanese Company:

"*Mill Selling Prices Reduced*

"Although the increase in yarn and fabric imports was not as large as was anticipated, it brought a drastic reduction in Canadian mill selling prices. Abolition of the specific duty meant that importers of British artificial silks could bring them into Canada at prices 5 to 12 cents a yard less than previously. The answer of the Celanese Company to the new threat from abroad was to reduce its prices to the level demanded by the import competition.

"Celanese fabric production for the year 1936, facing new import competition from the United Kingdom, did not command the price level of the previous year. But the volume of production greatly increased for during that year the company produced and consumed around 5,500,000 pounds of acetate yarn against a consumption of around 4,700,000 pounds in the previous year. Acetate yarn consumption of the plant during 1936 was in fact an all-time record."

It will be interesting also to note, as illustrating how a home manufacturer may meet a lowering of tariffs successfully, although the effect of the lowering is to reduce prices to the consumer, the attitude taken by the Canadian Celanese Company in 1936 to meet the competition which resulted from the tariff reductions made effective in May of that year. An article in the Textile Journal of July 24, 1936, has this to say regarding the company's position:

"*Meeting Competition from English Manufacturers*

"Conscious of the unquestioned success of the plans laid in the year 1929 the Celanese company entered the tenth year of its activities in Canada with a powerful and well directed organization. There was in the beginning of the year 1936 keen competition in the domestic market between producers of artificial silk goods and there was the threat of lower tariffs on imports of such goods from other countries. But the Celanese organization maintained its position and it showed little surprise when on May 1 of this year the tariffs on acetate yarns and artificial silk goods from the United Kingdom were substantially reduced.

"The new tariff rates brought a burst of competition from importers of British artificial silk goods and the answer of Celanese was in keeping with its record. It reduced the prices of its products to the level of those being landed in Canada from the United Kingdom and retained and expanded its business. This action did reduce the general artificial silk price level in Canada but it was considered by the company to be a logical step and the only one which would meet the circumstances. So the company maintained its production and sales and consolidated its position against the threat of import competition."

It may, of course, be argued that the great expansion in Canada of artificial silk products above referred to is due, in a large measure, to the rapid replacement of real silk by artificial silk. The headway made by artificial over real silk is a fact that must receive due weight. But this conversion of production does not affect the question concerning the Canadian-Japanese agreement raised by the manufacturers of Canada who waited upon members of the Government on January 14, 1936. The fears expressed by this delegation, and put forward as their reason for asking the Government to cancel its agreement with Japan, was that the Canadian market for artificial silk was about to be flooded by Japanese goods. According to their presentation of the case, the Canadian demand, whether large or small, whether expanded or diminished, was going to be met by Japan, and not by Canada, unless radical changes were made in our (then) new tariff structure.

I now set out a tabulation of the volume of production of rayon fabrics by the nine leading manufacturers in Canada, whose production formed 90 per cent of the total Canadian production in 1936, showing a comparison of this production in the first 11 months of 1935, 1936 and 1937. These figures are confined to these eleven-month periods because information is not yet available beyond the end of November, 1937.

DELIVERIES OF ARTIFICAL SILK FABRICS—FIRST ELEVEN MONTHS, 1935, 1936, 1937

—	1935	1936	1937
	Yds.	Yds.	Yds.
Canadian Celanese Ltd	14,165,058	13,958,820	15,544,211
Canadian Cottons Ltd	2,105,299	2,124,242	2,707,146
Dominion Textile Co. Ltd	1,922,621	2,687,143	3,326,150
Montreal Cottons Ltd	1,494,756	2,185,535	3,189,210
Associated Textiles of Canada Ltd	2,110,795	2,567,258	3,868,219
M. E. Binz Co. Ltd	2,009,800	1,278,204	1,277,035
Bruck Silk Mills Ltd	1,907,520	2,065,329	2,060,095
Consolidated Silk Mills Ltd	1,903,267	1,552,553	1,296,147
Grout's Ltd	651,509	1,296,072	1,756,897
	28,270,715*	29,715,156	35,025,110

Next I give the figures of importations for the same three periods.. In the case of importations, the trade figures cover rayon mixtures as well as all-rayon fabrics, whereas the production figures relate only to all-rayon goods. According to trade returns of the United Kingdom, approximately one-half of the exports to Canada now consist of rayon mixtures, although in earlier years the proportion of mixtures was much higher. I shall first give the import figures on the basis of weight as this is the manner in which they are recorded in the trade returns.

IMPORTS OF ARTIFICIAL SILK FABRICS—FIRST ELEVEN MONTHS, 1935, 1936, 1937

—	1935	1936	1937
	Lbs.	Lbs.	Lbs.
All Countries	659,436	1,109,913	1,743,987
United Kingdom	462,947	610,620	1,046,817
United States	97,950	127,753	184,813
Japan	40,786	330,988	442,498
Other Countries	57,753	40,552	69,859

The equivalent yardage figures may be approximated as follows:—

IMPORTS OF ARTIFICIAL SILK FABRICS—FIRST ELEVEN MONTHS, 1935, 1936 and 1937

—	1935	1936	1937
	Yds.	Yds.	Yds.
All Countries	2,756,000	5,411,000	8,139,500
United Kingdom	1,759,000	2,320,000	3,978,000
United States	499,500	651,500	942,500
Japan	273,000	2,291,000	2,964,000
Other countries	224,500	148,500	255,000

Coming to the Dominion Textile Company, the Company which is of particular interest in the present part of this report, its position at the end of 1936 does not support the fears which Mr. Gordon apparently entertained at the beginning of that year. On December 7, 1936, it put into effect an increased schedule of wages to its employees ranging up to a maximum of 7 per cent. In announcing this increase the Company said:—

"A general improvement in the conditions of our business, as reflected in the volume of orders on our books at the present time, is the underlying reason for this increase in wages."

In the Company's annual report for its business year ending March 31, 1937, I find the following statement:—

"We have been fortunate in securing a good volume of business over the past twelve months or so despite further reductions in the tariff during the interval. Under less favourable circumstances, the present tariff may prove quite inadequate to protect our wage levels and other costs of operation. Our main competitors, namely, Lancashire and the United States, have not been so hard-put recently to find outlets for their vast production in this market and, as a result, we have had some measure of relief from the type of competition we have long been accustomed to meeting from those sources. While Japan has made great headway, both in cottons and rayons, the total volume of these exports to Canada has not yet reached serious proportions, although it promises to do so if the present rate of increase continues unabated."

The annual statement of Canadian Cottons Ltd. for their financial year 1936-37, which also ends on March 31, 1937, is of a mixed character. It announces a better position for the Company than in the previous year and then refers to the question of Japanese competition in rayons:—

"Your Directors have pleasure in submitting the Twenty-seventh Annual Report of your Company, together with Balance Sheet as at March 31, 1937, and Profit and Loss Account for the twelve months' period ended on that date.

"The production of your mills has been well maintained during the year and more particularly during the last six months thereof. While the margin of profit on the goods produced has been very small, yet, as the volume of sales has been larger than for a number of years, your Company is able to present a Financial Statement which we trust will be satisfactory to the Shareholders.

"The Net Profit for the year, including interest on investments, amounted to $360,137.33, as compared with $222,814.16 for the previous year.

"The Preferred Shareholders of the Company received their usual dividend of 6 per cent, amounting to $219,690, and $108,620 was distributed among the Common Shareholders, being at the rate of 4 per cent per annum on their holdings. After the payment of these dividends an amount of $31,827.33 is left to be added to Profit and Loss Account as compared with a net loss of $105,495.84 shown at March 31, 1936."

* * * * * * * * * *

"Your directors are earnestly hoping that our Government will shortly put restrictions upon the importations of Japanese Rayons, such goods having come into Canada during the last year in ever increasing quantities and at prices that are quite impossible for Canadian manufacturers to meet. This condition of things has necessitated the shutting down of a number of looms at the St. Croix Mill that would otherwise be in operation. Unfortunately this Mill, due to lack of production and the keenest kind of competition, is still being operated at a loss, and the future outlook for that particular unit of your Company's Organization is far from encouraging."

Regarding the reference in this report to the St. Croix Mill, I may point out that the table of volume of production of the nine principal companies above set out shows that the rayon production of this mill, the only one in which the Company manufactures rayon fabrics, shows a small increase in 1936 over 1935, and a large increase in 1937 over 1936. The 11 month figures in each year are: in 1935, 2,105,299 yards; in 1936, 2,124,242 yards; and in 1937, 2,707,146 yards.

It must be noted, in respect to Canadian Cottons Ltd., that its production consists mainly of cotton goods. Its rayon manufacture is confined to its St. Croix Mill. The Dominion Textile Company also produces much more cotton than artificial silk goods. Its manufacture of the latter product is confined to its Sherbrooke Mill, to which, however, may be added, for practical purposes, the rayon mill of its subsidiary company, Montreal Cottons Ltd., at Valleyfield, Quebec. Mr. G. Blair Gordon is Managing-Director of both companies.

And again, I must state that, according to the evidence, artificial silk, in addition to displacing real silk at a rapid rate, is also making some inroads on the consumption of cotton goods.

CONCLUSION *RE* SHERBROOKE CLOSING

In the light of all the facts I have recited, it appears to me that the attitude of the delegation which expressed its apprehensions to members of the Government on January 14, 1936, and presented a demand for immediate action of a drastic character, was not justified by the situation as it then existed, and as it has developed since without the desired action having been taken. In particular I think that the circumstances surrounding the closing of the Sherbrooke mill, as they were made to appear, by the company, to the Government, to the public and to the company's employees, indicate hasty action, taken without due consideration of the real situation, causing, as it was bound to cause, distress and alarm, and calculated to impress the Government with the necessity of acceding at once to the request put before it by the delegation.

THE RESPONSIBILITY OF INDUSTRY

The terms of the Order in Council of January 27, 1936, show that the expediency of holding this inquiry was determined by the closing of the Sherbrooke mill and the circumstances accompanying this closing. The question of the responsibilities of industry, and especially of a protected industry, particularly in times of national difficulty, runs through the whole of the subject-matter of the investigation. The true position of an industry having been determined and the value of the privileges which it enjoys having been ascertained, an examination of the nature and the measure of its duties towards the public and towards those who serve it would appear to follow as a necessary consequence.

The present occasion may be the first in which the questions involved have been explored in Canada, at least on a large scale. I believe it is. There is more involved here than the usual problems of adequate wages, reasonable hours and proper working conditions. The further question is presented of the duty of an industry to take a share of the loss suffered by the community in periods of distress.

That a company in the position of the Dominion Textile Company is bound to some degree of responsibility seems to have been recognized by Mr. Gordon, who tells us that one of the reasons which prompted him to re-open the Sherbrooke mill was the necessity of providing relief by means of work for destitute employees. The same sense of responsibility is to be found in the action of the company, before the mill was re-opened, in guaranteeing the grocery accounts of these destitute persons. These acts cannot be qualified as mere acts of charity which might be extended to anybody; their character is determined by the fact that they were extended only to those between whom and the company the relationship of employer to employees existed.

But while the problem of the responsibility of industry in the sense in which I am now discussing it may not have been examined before in this country, it is by no means a new subject of interest in social and political history. Rather is it an old question. For instance, in the history of industrialism in England, the following quotations from "The Growth of English Industry and Commerce in Modern Times" by W. Cunningham, D.D., will illustrate the state of this problem in England in the 16th and the beginning of the 17th centuries. This quotation is taken from pages 49 and 50 of Part I of the work:—

". . . It is interesting, however, to find indications of the influence which contribute most noticeably to the sufferings of the poorer classes in modern times—the sudden changes to which they are forced to submit because of fluctuations in trade. In the sixteenth century, the clothing trade depended for its prosperity on access to foreign markets; and weavers and spinners might be suddenly cut off from all opportunity of employment, when intercourse with continental countries was interrupted through political complications. The Tudor government, backed by public opinion, took a very strong line as to the duty of capitalists, either as merchants or employers under such circumstances; it was thought only right that they should bear the risk of loss, which arose from increasing their stocks while there was no sale abroad, rather than to condemn the workmen to enforced idleness. Wolsey had met the difficulties in this fashion in 1528; he had insisted that clothiers should continue to employ workmen. In 1586 it was reported to the credit of the clothiers of Gloucestershire, that they had not diminished employment, although they were losing heavily on each cloth; and the Ipswich employers were compelled to set the poor at work in 1591. The most striking exemplifications of this principle occurred during the great depression in the clothing industry in 1622 and 1623 when the Privy Council issued Proclamations insisting that the clothiers should continue to employ the weavers as they had done when trade was good."

It will also be of interest to note that at page 206 of the same volume, the author describes the change which took place at a later period when the policy of "laissez faire" dominated enterprise:—

". . . The result was an immense development of economic freedom, both as regards the practice of various callings and the conduct of internal commerce. But this step in progress was purchased at a heavy price; loss arose as well as gain in the changes of the time. Under these altered conditions no room was left for authoritative insistence on moral, as distinguished from legal, obligations; the success of Puritanism meant the triumph of the new commercial morality, which held good among moneyed men; capitalists had established their right to secure a return for their money, and there was no authority to insist upon any correlative duty, when they organized industrial undertakings and obtained a control over the means of production. There are still examples of manufacturers who continue to carry on business at a loss in bad times, in order to provide employment for their hands, but the time has passed when government could insist on such conduct as obligatory."

It must be borne in mind, in reading the above excerpts, that the author is dealing with the duties of industry and of capital in general. But in the present investigation the industry concerned is one which has enjoyed for many years the privilege of a protective tariff. Without this tariff the consumer would be at liberty to buy his requirements in whatever market he chose, and at free trade prices, excepting perhaps a purely revenue impost. For instance, we have seen some of the comparatively cheap invoice prices of certain artificial silk goods landed in Canada from Japan. In other words, the community has consented, through Parliament, to tax itself for the benefit of an industry which turns out a product that everybody must use and which, in a large measure, is not indigenous to Canada. Some of the industry's necessary raw material: raw silk, raw cotton, and a portion of the raw wool, must be imported from other countries.

The community, therefore, is entitled to some substantial benefit from such an industry in return for the great privilege bestowed on it. At the present moment I am merely touching upon this question and in one only of its aspects. The whole subject will call for fuller treatment later on.

OBJECTS SOUGHT TO BE ATTAINED

But the Order in Council does not deal only with the responsibilities of the textile industry. These cannot adequately be determined unless at the same time an impartial inquiry is also made into the interests of the industry.

It is in order that the investigation should bear this character of thoroughness that I have been directed to inquire into and to report upon all matters pertaining, not only to the responsibilities of the industry, but also to the interest of its employees, of the public, and of the industry itself. As the Order in Council says, the safeguarding of all these interests by appropriate action is the object which the Government has in view.

To attain this end,—again according to the wording of the Order in Council,—it has been my duty, in fulfilling this Commission, to obtain and transmit to the Government all necessary information, covering a period of years, with respect to the following matters:—

(*a*) tariff protection,
(*b*) volume of production,
(*c*) investment,
(*d*) costs,
(*e*) profits,
(*f*) wages,
(*g*) salaries and bonuses,
(*h*) and, in addition to the foregoing, with respect to such other matters as may appear pertinent to the objects of the inquiry.

The Government, as is stated, requires this information in order that, along with other information already available, it may be enabled to reach sound conclusions "regarding the position of this and other branches of the textile industry in relation to British and foreign competition, and in particular, the extent to which the employer can reasonably and properly be expected to maintain employment over periods of temporary difficulty."

CHAPTER II

THE DEVELOPMENT OF THE TEXTILE INDUSTRY IN CANADA

Before proceeding to a study of the various topics enumerated in the closing of the last chapter, such as tariff protection, etc., it will be well, and even necessary to a complete treatment of the subject-matter of the inquiry, to devote some space to the origin and the growth of the textile industry in this country. This narrative necessitates, among other things, frequent reference to tariff rates and changes, but is not intended to deal finally with the subject of the tariff, which will form the material of a later chapter.

The development of the textile industry in Canada has taken place as a result of the shift from domestic to factory production and the encouragement of manufacturing in Canada under the Protective Tariff. The textile industry in Canada now embraces a number of divisions engaged in the processing of the various textile fibres and producing a diversity of manufactured articles. The industry has developed to supply not only materials for clothing and apparel but also an increasing range of goods for industrial uses. The principal branches of the industry which have been included in this inquiry are cotton yarn and cloth, cotton thread, silk and artificial silk, hosiery and knit goods, woollen yarn and cloth and carpets. The cotton yarn and cloth division is the most important from the viewpoint of the capital investment and workers employed. In 1935, according to the Annual Census of Industry there were 17,554 wage-earners in 35 cotton yarn and cloth mills in Canada. There were almost as many wage-earners in the hosiery and knit goods branch of the industry which includes plants manufacturing silk hosiery, as well as concerns engaged in the production of various kinds of knit goods such as knitted underwear, sweaters, wool and cotton stockings, etc. There were 163 hosiery and knit goods plants in Canada according to the Census of 1935, and these employed 17,012 wage-earners. Figures for silk and artificial silk factories are combined in the Annual Census returns, as there are only two firms engaged in the production of artificial silk yarns, Canadian Celanese Ltd., and Courtaulds (Canada) Ltd. Thirty-three firms with 9,184 workers are included in the 1935 census figures for the silk and artificial silk industry. The woollen yarn and cloth mills in Canada numbered 99 in 1935, and the Census returns show an average of 8,238 wage-earners in that year. In addition to the firms in these branches of the industry, there are also primary textile plants engaged in manufacturing cordage, rope and twine, cotton batting and wadding, cotton jute bags, cotton thread, linen goods, etc. There are also firms which specialize in the dyeing and finishing of grey goods manufactured by the weaving mills in several branches of the industry or imported for finishing.

According to the Census of 1931, 1·4 per cent of the gainfully employed population were attached to the various branches of the primary textile industry. The percentage of males was slightly less than 1 per cent, but 3·6 per cent of the females gainfully employed were occupied in primary textile plants. Of the gainfully employed population in manufacturing establishments, those in the primary textile industry form 8·7 per cent, the proportion of males being 5·9 per cent and of females 21·8 per cent. It will thus be seen that the factories in the primary textile industry are important sources of employment for workers in Canada, and particularly so for female operatives.

On the basis of net value of production, the hosiery and knit goods division of the primary textile industry ranked seventh in 1934, among all manufacturing industries, while the cotton yarn and cloth held ninth place. On the basis of number of wage-earners, however, the cotton yarn and cloth division ranked third among the manufacturing industries of Canada and the hosiery and knit goods division, fourth. In the following paragraphs the growth of each branch of the textile industry will be traced in relation to the tariff protection which has been afforded.

Cotton Yarn and Cloth

The cotton manufacturing industry of Canada, like that of the United States, received its initial stimulus largely as a result of disturbances caused by war, but was fully established under a protective tariff. The Napoleonic Wars provided the setting for the large-scale development of cotton manufacturing in the United States, while the American Civil War hindered the flow of cotton goods to Canada and hastened the growth of the Canadian industry. Cotton manufacturing as a machine industry began in the United States in the period 1807-1814, when imports from England were barred from the United States under the Embargo and Non-Intercourse Acts of 1807-09. After the close of the war of 1812, English cotton imports were again admitted to the United States market, but in 1816, a duty of 25 per cent was imposed on foreign cotton goods.

The earliest Canadian cotton mill on record was erected in 1844 in Sherbrooke, Quebec, by a limited liability company with a capital of £12,000. The promoters of this mill had another distinction in that they formed what was the first limited liability company in the manufacturing field in Canada. The mill had a capacity of 1,200 spindles and grey sheetings were manufactured for several years until the plant was burned down. The same fate overtook the second cotton mill which was built at Thorold in 1847. This mill had 15 to 20 looms and manufactured grey sheetings and other plain goods along with cotton batting. Varying financial success was obtained by the operators and finally the factory was destroyed by fire in 1864. A third cotton mill was established in Montreal in 1853 with a capacity of 1,500 spindles and 46 looms for the manufacture of tickings, denims and seamless bags.

The disturbance created in the cotton industry in the United States as a result of the Civil War provided an opportunity for the further development of the cotton manufacturing in Canada. Between 1860 and 1865, four new mills were erected at the following points—Dundas, Merriton and Hastings in Upper Canada, and Saint John, New Brunswick. The mill in Saint John was established in 1861 by Wm. Parks and Son, and, as this plant is still in operation under the ownership of the Cornwall and York Cotton Mills Ltd., it constitutes the oldest existing cotton mill in the Dominion. The total capacity of the five mills operating in 1865 has been estimated at about 40,000 spindles.

On the conclusion of the American Civil War, the Canadian mills found themselves faced with more serious competition and further expansion was delayed for some years. However, in the early seventies the foundation was laid for what were to become the larger cotton manufacturing companies in Canada. The Hudon Cotton mill was established in the Hochelaga district in Montreal in 1873 and later, through the Hochelaga Cotton Company, became the nucleus of the Dominion Cotton Mills Co., which, in turn, was taken over by the Dominion Textile Co. Ltd. In the previous year, 1872, the Canada Cotton Manufacturing Company had built a mill at Cornwall which now forms one of the mills of the Canadian Cottons Limited. In 1874, The Montreal Cottons Co. was organized to build the first mill at Valleyfield, Quebec. The original plant utilized the water power at Valleyfield with the machinery first operated with overhead shaftings connected with a water wheel. Later on, a power house was constructed and electrical energy generated.

The Decennial Census of 1871 records nine cotton mills in Canada, of which two were in the Maritime Provinces, one in Quebec, and six in Ontario. Apparently the Census enumerators reported plants under construction as well as those in actual operation. The number of workers is given for 1870 as 245 males and 480 females with wages amounting to $129,400 for the year. The net value of production was placed at $319,800 and the capital $632,000. The number of spindles has been estimated at 95,000 compared with 40,000 five years earlier.

It was not, however, until the adoption of the National Policy in 1879 that the rapid development began in cotton manufacturing in Canada. Between 1878 and 1885 seventeen cotton mills were established in Canada, of which six were organized during the year 1882. Between 1880 and 1890, according to the returns of the Decennial Census, the capital invested in the cotton manufacturing industry in Canada increased from $3,476,500 to $13,208,121 and the number of employees from 3,529 to 8,502, while the net value of production in 1890 was $4,243,710 compared with $1,779,757 a decade before. Ontario, which in 1880 had 47·7 per cent of the employees compared with 42·5 per cent in Quebec and 9·8 per cent in the Maritimes Provinces, reported only 29·3 per cent in 1890 compared with 44·6 per cent in Quebec and 26·1 per cent in the Maritime Provinces. It will thus be seen that relatively the most rapid expansion in the cotton manufacturing industry had occurred in the Maritime Provinces, but in actual amounts the greatest development had taken place in Quebec, where capital employed in the industry had been increased from $1,331,000 in 1880 to $6,484,000 in 1890. The dominance assumed by the industry in Quebec at this time became greater with the passing years.

The development of cotton manufacturing in Canada is indicated to some extent by imports of raw cotton. In the fiscal year ending June 1871, imports of raw cotton amounted to 2,246,000 pounds. By 1879, the imports had increased to 9,721,000 pounds, but in the following year they rose to over 13,000,000 pounds and by 1883 to almost 40,000,000 pounds. This rapid expansion is also indicated by the records of some of the individual cotton companies. The Hudon Cotton Co. used 1,437,724 pounds of raw cotton in 1877 and almost 3,000,000 pounds in 1880, their production of cotton goods increased from 4,500,000 yards in 1877 to 15,445,000 yards in 1882.

As the majority of the larger cotton cloth mills were started before 1885, it may be of interest to list the mills in existence at that time with their dates of establishment so far as these are known.

Province	Name of Company	Date of Establishment
Maritime Provinces.	(a) Wm. Parks & Son Limited, St. John	1861
	(a) St. John Cotton Company, St. John	1880 (?)
	(b) St. Croix Cotton Company, Milltown	1881
	(a) Moncton Cotton Mfg. Company, Moncton	1882
	(c) Nova Scotia Cotton Company, Halifax	1882
	(c) Windsor Cotton Company, Windsor, N.S.	1882
	(b) Gibson Cotton Mill, Marysville	1884
	Yarmouth Duck & Yarn Co., Yarmouth	1884
Quebec	(c) Hudon Cotton Co., Montreal	1875
	Montreal Cottons Co., Valleyfield	1874
	(c) Coaticook Mills Co., Coaticook	1879
	(c) Chambly Cotton Company, Chambly	1881
	(c) Merchants Manufacturing Co., Montreal	1882
	(c) St. Anne's Spinning Co., Montreal	1882
	(c) Magog Textile & Print Co., Magog	1884
Ontario	(c) Lybster Cotton Manufacturing Co., Merriton	1860
	(b) Dundas Cotton Mills, Dundas	1861
	(b) Canada Cotton Manufacturing Co., Cornwall	1872
	(b) Stormont Cotton Manufacturing Co., Cornwall	1879
	(c) Craven Cotton Company, Brantford	1880
	Hamilton Cotton Co., Hamilton	1880
	(c) Kingston Cotton Manufacturing Co., Kingston	1881
	(b) Ontario Cotton Mills, Hamilton	1882
	(c) Merriton Cotton Mills, Merriton	1884

(a) Now operated by Cornwall & York Cotton Mills Ltd.
(b) Later absorbed by Canadian Cottons Ltd.
(c) Later absorbed by Dominion Textile Co.

This tremendous development in cotton maufacturing had been stimulated by the increase in custom duties on cotton mànufactures. The tariff schedule of 1874 provided for duties of 17½ per cent on all cotton manufactures other than yarns, on which the duty was at 10 per cent. The National Policy Tariff of 1879 has been estimated as increasing the duties from 17½ per cent to somewhere between 20 and 30 per cent. According to the Canada Year Book, the duties collected on cotton importations averaged 30 per cent in 1881. The comparison is rendered difficult because of the imposition of the specific duties under the tariff of 1879. The rates on cotton fabrics under the National Policy were set at 15 per cent plus one cent per square yard in the the case of white or grey goods, and 15 per cent plus 2 cents per square yard for coloured goods. The duty on printed cottons not made in Canada was increased to 20 per cent. The advance in the duties on yarns was apparently greater as the rates for coloured yarn were set at 15 per cent plus 3 cents per pound instead of the former rate of 10 per cent and on other yarns at 15 per cent and 2 cents per pound.

The expansion in the capacity of the cotton mills during the early eighties was more than sufficient to meet the domestic demand. The number of spindles was estimated to have increased from approximately 134,000 in 1879 to almost 500,000 in 1885. The Canadian mills tended to concentrate their production on grey fabrics, with the result that they could have supplied the demands of twice the population of Canada at that time and consequently the industry could not operate to capacity.

The extent to which the industry had developed in this brief period is indicated by the following table which is given in the report of the Secretary of the Montreal Board of Trade for 1883. It is probable that the figures which the Secretary gives for 1883 for production and employment represent capacity operations, as the imports of raw cotton for the two fiscal years 1883-1884 averaged only 23,328,000 pounds, as against the total of 38,470,000 pounds given in the Secretary's report. Likewise the number of employees in 1883 is out of line with the increase in the payroll. From 1879 the number of workers probably increased from 2,265 to between 4,500 and 5,000 in 1883.

—	Seven Mills in 1879	Twenty Mills in 1883
Total capital employed	$ 2,100,000	$ 8,500,000
Aggregate quantity of raw material used per annum (lbs.)	12,800,000	38,470,000
Quantity of cloth produced (yds.)	38,000,000	115,000,000
Approximate value of annual production	$ 3,745,000	$ 10,400,000
Number of spindles	134,000	472,000
Number of looms	2,940	9,950
Number of employees	2,265	10,200
Amount of wages paid per annum	$ 556,000	$ 1,110,000

Although imports of cotton cloth dropped from 47 million yards in 1879 to between 25 and 30 million by 1883 (the largest decline taking place in imports of grey goods) the potential supply, in view of the figures in the above table must have increased from approximately 85 million yards in 1879 to 140 or 145 million yards in the latter year, or more than 60 per cent, although the population is estimated to have increased by only about 200,000 in the same period, the total population being placed at 4,375,000 persons in 1883.

The financial history of the earlier cotton companies was traced by the Commission through the existing minute books. The records of the Hudon Cotton Co., which amalgamated with the St. Anne Spinning Co. to form the Hochelaga Manufacturing Co. in 1885, and the Montreal Cotton Co. show that the period from 1878 to 1883 was one of considerable prosperity. The Hudon Co. paid a dividend of 10 per cent on the Common stock in 1878 and a stock bonus of 33⅓ per cent in 1880, while cash dividends of 10 per cent were paid on the enlarged capital in 1881 and 1882. In 1883, while no cash dividends were paid, a Common stock bonus of 100 per cent was given to shareholders on the basis of surplus accumulated to that time. The records of the Montreal Cotton Co. show that dividends of 11 per cent were paid in 1880, 20 per cent in 1881, 14 per cent in 1882 and 9 per cent in 1883.

It was to be expected that a period of such intensive development and marked prosperity for the cotton companies would be followed by a recession, particularly when general business conditions had become depressed after the financial crisis of 1882. The stocks of cotton companies which had been selling at premiums from 25 to 60 per cent in 1881 and 1882 dropped to less than 50 cents on the dollar in 1884 and 1885. The Montreal Cotton Company suspended dividend payments in 1884, 1885 and 1886 and the Hudon Company curtailed operations considerably in 1883 as the following excerpt from the annual meeting of February 15, 1884, relates:—

"Your Directors have the pleasure of laying before you the Eleventh Annual Report of the Company, operations for the year 1883, and before reading the different accounts would state that they are made up to the 31st October being only 10 months' work of the mill. This was done during the stoppage of the works in November which your Directors in the interest of the Mill and the Cotton Trade generally considered in their judgment as the best thing to do in order *that stocks might be reduced and regular prices for the goods maintained.* Consequently the profits are for 10 months only . . ."

The over-capacity for the production of grey cloths was relieved to some extent by the establishment of a print works in connection with the Magog Mills in 1884 and the introduction of bleaching and calico printing in the grey mills. The production of printed cottons was encouraged by the establishment of a separate item in the tariff of 1884 providing for duties of 27½ per cent on this class of goods. The rate was increased to 32½ per cent in 1887.

The market was further relieved, on the completion of the Canadian Pacific Railway, when Canadian mills began to ship grey cottons to China, in competition, strange as it may seem to-day, with Great Britain and the United States. In 1889 a company was organized to erect a mill at Montmorency Falls, Quebec, to produce cotton goods for the China and Africa markets. Over 5 million yards of cottons were shipped over the C.P.R. in 1887 and substantial quantities were exported by this route until the beginning of the present century, when the disturbance created by the Boxer Rebellion and the growing competition in the China market, together with the increasing demand at home, led Canadian mills to abandon the trade.

The period of depression was short-lived for the larger cotton companies. The Montreal Cotton Co. resumed dividend payments at 8 per cent in 1887 and for the next four years dividends of 6 per cent were paid, increasing to 6½ per cent in 1892 and 8 per cent in 1893. The Hochelaga Cotton Co., which, on the amalgamation of the two predecessor companies, had 1,800 looms and 92,700 spindles (approximately one-fifth of the machine capacity of Canadian mills), declared a dividend of 6 per cent in 1885, and the records show dividends of 10 per cent in the three years following. Shares of cotton companies made substantial recovery in 1886 and in 1887 the stock of the Montreal and Hochelaga companies was again at a premium.

There is some suggestion that the export of grey goods to the China market was, to some extent, a co-operative venture by Canadian mills to relieve the domestic market. At all events the minutes of the Hochelaga Cotton Co. of February 16, 1887, reveal that steps had been taken to form an association to stabilize conditions.

"During the year an association called the Dominion Cotton Manufacturers Association was formed, *for the purpose of maintaining prices as far as possible* to a uniform standard, to which with one exception all the mills in the country gave their adhesion. So far the

Association has worked admirably and there is every prospect of it continuing to do so in the future and will exercise a very beneficial effect on all the cotton industries of the Country."

More definite steps were soon to be taken to bring production under more centralized control. In 1889 agents for certain English financial interests put forth proposals for amalgamating all the grey mills in Canada and New York financiers also displayed some interest. The organization of the merger was, however, undertaken in 1890 by Messrs. A. F. Gault and David Morrice, who were interested in both manufacturing and merchandising. Mr. A. F. Gault was, for a considerable period, president of the Hochelaga Cotton Co., the Montreal Cotton Company, the Montmorency Company and later the Dominion Cotton Mills and the Canadian Coloured Cottons.

The scheme of the merger provided for the creation of a new company, the Dominion Cotton Mills Company Ltd., which would take over the three mills of the Hochelaga Company, (the Magog Company was purchased in 1889), in exchange for share for share of stock, and purchase the following mills:—

Windsor Cotton Mfg. Co., Windsor, N.S.
Nova Scotia Cotton Mfg. Co., Halifax, N.S.
Moncton Cotton Mfg. Co., Moncton, N.B.
Chambly Cotton Co., Chambly, Que.
Coaticook Cotton Co., Coaticook, Que.
Craven Cotton Mfg. Co., Brantford, Ont.
Kingston Cotton Mfg. Co., Kingston, Ont.

All the above mills except the Chambly Mill were taken over late in 1890, while the Chambly Company and a small firm, the Slater-Wincey Company, were purchased in 1891.

Mr. A. F. Gault and his associates then turned their attention to amalgamating the remaining cotton companies. In 1892 the Canadian Coloured Cottons Ltd. was formed to take over the following companies:—

Canada Cotton Mfg. Co., Cornwall, Ont.
Stormont Cotton Mfg. Co., Cornwall, Ont.
Dundas Cotton Mills, Dundas, Ont.
Ontario Cotton Mills Co., Hamilton, Ont.
Lybster Cotton Mfg. Co., Merriton, Ont.
Merriton Cotton Mills Co., Merriton, Ont.
St. Croix Cotton Mills, Milltown, N.B.

The shares of the Canada Cotton Company and the Stormont Company were quoted at 50 cents on the dollar in 1891, and the shares of the Dundas Company had dropped to less than 40 in 1890 and were not quoted thereafter.

The two mergers thus controlled 19 of the 26 cotton mills in Canada in 1892 and approximately 70 per cent of the machine equipment. The Dominion Cotton Mills Company was the larger with about 40 per cent of the spindles and 38 per cent of the looms. The Canadian Coloured Cotton Mills had roughly 30 per cent of the spindles and 32 per cent of the looms. The only important companies remaining outside the amalgamations were the Merchants Manufacturing Co., the Montmorency Cotton Co. and the Montreal Cotton Co.

The two amalgamations appear to have been planned to bring mills producing similar lines under one control. Thus the Dominion Cotton Mills concentrated on the production of unbleached, bleached and printed goods, while the Canadian Coloured Cottons, as the name suggests, became the principal manufacturer of raw stock or yarn-dyed fabrics. Gingham which is now seldom in fashion was one of the staple style lines produced by this company and the falling demand in later years for this cloth had a serious effect on the operations of the Milltown mill of the company. The Montreal Cotton Co., which remained outside the mergers, also attempted to eliminate, as far as possible, domestic competition for those lines in which it specialized. The following item appears in the minutes of this company for the annual meeting in 1893:—

"During the early part of the year, arrangements were made with the Canadian Coloured Cotton Mills Company to abandon that part of their manufacture which most directly interfered with our work, and, in the opinion of your directors, a very satisfactory arrangement was negotiated, which gives this company the absolute control of all goods of this class at present manufactured in the Dominion."

It is stated later in the minutes that the sum of $30,000 had been paid to the Canadian Coloured Cotton Mill Company "for machinery and good will."

In 1891 and 1892 general prosperity prevailed and the two mergers showed profitable operations. In 1892 the Dominion Cotton Mills doubled its share capital by issuing additional stock to shareholders for only 10 per cent in cash and paid dividends of 6 per cent on the enlarged capital in 1893. At the annual meeting in April, 1893, it was stated that the preceding year had been one of the best in the company's history. The Canadian Coloured Cottons was content to increase its surplus and pay dividends at the rate of 2 to 4 per cent, but inasmuch as it was not possible to determine the basis on which the common stock had been issued at the time of the merger, the rate of return on actual investment remains unsettled. The Montreal Cotton Company continued its prosperous career with dividends ranging from 7 to 9 per cent per annum.

No new mills were established until 1900 and during the decade following the mergers all the mills in Merriton, Dundas, Brantford, Chambly and Coaticook were closed and after the turn of the century the mills in Moncton and Windsor were abandoned. The equipment from the Dundas Mill was moved to Cornwall where the Canadian Coloured Cotton Mills converted an old woollen plant into what has since been called their Dundas Mill. The decline in the number of mills did not result in lower manufacturing capacity as the equipment in the remaining plants was increased.

In addition to the reference to the prosperity of the industry, the minutes of the Dominion Cotton Mills for 1893 contain the following comment on the tariff:—

"You will have noticed that there had been considerable agitation from some time past in and out of Parliament with regard to a revision of tariff. . . There will doubtless be some change in the tariff, but whatever be the result we think and believe this company will always be in a position to earn a good respectable dividend."

This forecast was borne out by the budget of 1894 which reduced the duties on cotton goods. Specific duties were abolished and the following rates were established:—

	Per Cent
Cotton Yarns and Warps	25
Grey Cotton Fabrics	$22\frac{1}{2}$
White or Bleached Fabrics	25
Dyed or Coloured	30

Again it is difficult to determine the extent of the change from compound *ad valorem* and specific) to *ad valorem* rates, except in the case of coloured goods on which the previous rates had been $32\frac{1}{2}$ per cent. According to the records of the Dominion Cotton Mills the Tariff of 1894 was 5 per cent less on many of the goods produced by the company than a committee of the management had tried to secure. So it may be presumed that duties had been reduced from 5 to 10 per cent at least.

In 1897, the policy of granting a general preference on British imports was adopted by Canada when a discount of one-eighth was allowed on the general tariff rates. The preference was increased to one-quarter in the following year and to one-third in 1900. As the United Kingdom had entered into treaties with the German Zollverein in 1865 and with Belgium in 1862, under which the Colonies were bound to accord to these countries any tariff advantages given to the United Kingdom, the preferential rates were extended to these two countries.

A number of other countries enjoying most-favoured-nation treatment in Canada automatically received the benefits of the concessions once they were extended to Germany and Belgium. France and her Colonies also enjoyed the benefits of the preference by reasons of the Franco-Canadian Treaty of 1893 which provided that France should enjoy any tariff advantage granted to any other foreign power.

This situation prevailed only until 1898 when the denunciation by the United Kingdom of the German and Belgian trade treaties left Canada free to confine the preference to British imports.

The general tariff rates on grey and coloured cotton fabrics were, however, increased under the tariff of 1897. The following table shows the effective duty rates during the period.

—	Preferential Tariff			General Tariff		
	1897	1898	1900	1894	1897	1900
	%	%	%	%	%	%
Yarns and warps	21⅞	18¾	16⅔	25	25	25
Grey or unbleached fabrics	21⅞	18¾	16⅔	22½	25	25
White or bleached fabrics	21⅞	18¾	16⅔	25	25	25
Coloured fabrics	30⅝	26¼	23⅓	30	35	35

Although continued reference is found in the minutes of the cotton companies to the detrimental effects of the preferential tariff, the records of the various companies show that the last years of the century were very profitable. The sales of the Montreal Cotton Company increased from $1,000,000 in 1892 to $1,700,000 in 1899 while those of the Dominion Cotton Mills, which had declined in 1895, increased greatly in the following years as did those of the Canadian Coloured Cotton Mills. The net value of production as reported by the Census of 1900 was $6,200,000 as compared with $4,244,000 in 1890, an increase of 46 per cent. The number of workers also increased from 8,500 in 1890 to 11,800 in 1900.

The growing prosperity of the industry in the late nineties led to further expansion of manufacturing capacity. The Montreal Cotton Company built a new mill at Valleyfield in 1899 and the Dominion Cotton Mills enlarged its plants at Magog, Montreal and other points. The Montreal Cotton Company professed that its enlarged equipment was for the manufacture of goods not hitherto produced in Canada. But the Dominion Cotton Mills found growing competition from the Merchants Cotton Company and the Colonial Bleaching and Printing Company, the latter having been started in 1899. In September, 1903, a meeting of the representatives of the three companies was called " with a view to bringing about a better relationship between the three companies who are now competing with one another." A proposal was later made for amalgamating the three companies, but the shareholders of the Merchants Company and the Colonial Bleaching and Printing Company apparently sought too high a price for their shares from the viewpoint of the directors of the Dominion Cotton Mills. Finally, in 1905, a syndicate organized the Dominion Textile Company to take over the properties of the following companies:—

Dominion Cotton Mills Co. Ltd.
Merchants Cotton Company Ltd.
Colonial Printing and Bleaching Co. Ltd.
Montmorency Cotton Mills Company Ltd.

The new company thus controlled about 8,300 looms and 370,000 spindles, or practically half the equipment in the industry. The syndicate had attempted to include the Montreal Cotton Company in the merger but the shareholders accepted the advice of their president not to sell out to the syndicate.

In the first decade of the present century a few new cotton mills were established. The Imperial Cotton Company had erected a plant in Hamilton in 1900 chiefly for the manufacture of specialty goods for industrial purposes and in 1906 the Mount Royal Spinning Co. Ltd. was organized to build a mill in Montreal. Mr. C. R. Whitehead, who had previously been connected with the Dominion Cotton Mills Company, was the principal promoter of the Wabasso Cotton Company which commenced the construction of mills in Three Rivers, Quebec, in 1907. This plant was intended to produce fine cotton goods which were then being imported. Two years later Mr. Whitehead was again active in developing a spinning company, the Shawinigan Cotton Company, at Shawinigan Falls, Quebec. In 1910, the Canadian Coloured Cotton Mills Ltd. changed its name to the Canadian Cottons Limited and took over the Gibson Cotton Mill in Marysville, N.B. and the Mount Royal Spinning Company. The plant of the latter was immediately leased to the Dominion Textile Company and eventually purchased by that concern.

Between 1900 and 1910 the net value of cotton manufacturing increased from $6,200,000 to $10,605,000, but the number of employees advanced only from 11,800 to 12,900. Production had become more concentrated in the province of Quebec as the Dominion Cotton Mills and later the Dominion Textile Company abandoned outlying plants. In 1910 the Quebec cotton mills accounted for 63 per cent of the workers and 66 per cent of the net value of production, while plants in Ontario had 18 per cent of the workers and of the net value of production. The proportions for the Maritime Provinces were 19 per cent and 15·7 per cent for workers and production respectively.

A new Canadian Customs Tariff was adopted on April 12, 1907, containing three columns of duties, British Preferential, Intermediate and General. This tariff, with amendments, is still in operation.

The tariff revision of 1907 reduced the British Preferential rates on some cotton items but increased them on others. The duty on grey goods became 15 per cent instead of 16⅔ per cent, but on bleached goods the rate was advanced to 17½ per cent from 16⅔ per cent and on coloured goods to 25 per cent from 23⅓ per cent. The new Intermediate Tariff gave rates of 22½ per cent on grey and bleached goods and 30 per cent on coloured fabrics. The General Tariff rate on the latter item was reduced to 32½ per cent from the level of 35 per cent previously prevailing.

No further changes were made in the tariff rates on the major cotton items until the post-war period except for special war duties. The changes in 1907 occurred at a time of business depression and the cotton companies were inclined to blame the tariff for some of their difficulties. The following comment appears in the minute book of the Dominion Textile Co. recording the annual meeting of shareholders on May 27, 1908:—

> "The Company has enjoyed several prosperous years since its organization without feeling the effect of foreign competition, owing to the good times prevailing abroad which kept all the mills busy supplying their own requirements. At the present time, however, owing to the business depression which set in last fall, and the very low tariff on cotton importations from Great Britain, which is only 15 per cent on greys and 17½ per cent on bleached goods compared with duties ranging from 40 to 50 per cent in the United States, we are beginning to feel the effect of this competition and it has necessitated our being compelled to operate the mills on short time and also to reduce wages."

The temporary lull in the cotton business was soon passed and the Canadian companies greatly increased their production. Again, imports of raw cotton tend to show the movement. Imports rose from some 50 million pounds in 1900-01 to more than 77 million pounds in the fiscal year ending March, 1913. It should be mentioned, however, that the demands for industrial cotton goods and for the knitting trades were increasing in this period. The general expansion in Canadian industry and agriculture during the first part of the present century provided growing markets for cotton goods. In spite of growing domestic production, imports of grey and bleached fabrics, which had declined from 6,500,000 yards in 1880 to 1,200,000 yards in 1890, now began to increase, mainly from the United Kingdom. In 1900 the imports of grey cotton goods were 3,100,000 yards and bleached goods 6,145,000 yards. In 1913, the imports of grey goods were 16,472,000 yards and bleached goods almost 34,000,000 yards, and, in addition, 4,000,000 yards of heavy cotton such as ducks, were imported. Imports of dyed or coloured goods, which amounted to more than 33,000,000 yards in 1879, had declined to 25,000,000 yards by 1890 but, by 1913, had increased to 71,000,000 yards.

The number of employees in the Canadian cotton yarn and cloth mills increased during this period from 12,863 in 1910 to 14,335 in 1915. Most of the expansion, however, occurred in the Provinces of Quebec and Ontario as the number of workers in the Maritime Provinces was practically the same in both years. Only two new mills were started during this period; one, the Empire Cottons at Welland, and the other the Canadian Connecticut Company at Sherbrooke, Quebec, for the manufacture of tire fabrics.

The period of the war brought great prosperity to the Canadian cotton mills as they were called upon not only to supply the Canadian market but also to undertake war contracts for the United States. Between 1915 and 1920, the number of employees increased about 23 per cent, and the consumption of raw cotton rose to 96,471,550 pounds for the fiscal year ending 1920 compared with 77,000,000 pounds in 1913. Although considerable difficulty was experienced in securing new equipment during the war years, some expansion occurred in the machine capacity in the Canadian industry. The increased demand during this period, however, was largely met by the operation of mills on what practically amounted to a 24-hour basis.

The principal developments since the war have been the development of specialty plants of various kinds. The rapid increase in the manufacture of rubber tires led to the establishment of additional tire fabric plants. As has already been mentioned, a plant had been built in Sherbrooke shortly before the war. Branches of United States firms were established in Drummondville in 1921 and St. Hyacinthe in 1926. The latter was purchased by the Goodyear Rubber Company while the Dominion Textile Company purchased the Sherbrooke and Drummondville plants in 1929. As some of the tire companies commenced to produce tire fabrics in their own fabric plants, the Dominion Textile Co. abandoned the manufacture of tire fabrics at Sherbrooke in 1931.

The Halifax mill of the Dominion Textile Company was destroyed by fire in 1917 and not re-built, but the Company built a new mill in Verdun in 1920. This proved one of the shortest-lived of the cotton mills, being abandoned as a manufacturing plant in 1935 when the equipment was transferred to Sherbrooke. The Kingston mill had been closed in 1929 and the Ste. Anne plant in 1934. The apparent policy of this company in recent years has been to build up the mills at Montmorency Falls, Magog and Sherbrooke.

The 35 cotton yarn and cloth plants reported in the Census of Industry, 1935, may be classified as follows:—

Spinning Mills	6
Yarn and Cloth Mills	22
Tire Fabric Mills	2
Bleaching Mills	1
Specialty Mills	4
	35

The development of the cotton industry in Canada has proceeded along different lines to those followed in either the United Kingdom or the United States. In the United Kingdom the spinning, weaving and finishing divisions have been developed separately and firms tend to specialize on manufacturing yarns, weaving grey goods or finishing cloths. In the United States spinning and weaving have been integrated to a larger extent than in Great Britain, but the fishing of the cloths is largely in the hands of converters. In Canada, almost from the beginning, the larger companies have tended to engage in all processes of manufacture although separate units have been established for the various processes.

The following table indicates the growth of the industry from the earliest stages to the present day. The shift from mule to ring spindles and from non-automatic to automatic looms, which represent higher productive capacity per unit than the older types, should be noted.

1. DEVELOPMENT OF COTTON YARN AND CLOTH INDUSTRY—1860-1935

Year	Imports of raw cotton*	Number of mills	Number of hands	Number of spindles in place			Number of looms in place		
				Mule	Ring	Total	Non Automatic	Automatic	Total
	(000) Lb.								
1860	.....	1	70	.....	.....	1,500	.....	.....	46
1865	.....	5	.....	.....	.....	40,000	.....	.....	.....
1871	1,974	8	745	.....	.....	95,000	.....	.....	.....
1879	11,479	7	2,265	.....	.....	134,000	.....	.....	2,940
1883	23,328	20	5,000	.....	.....	472,000	.....	.....	9,950
1890	34,550	22	8,502	.....	.....	520,000	.....	.....	11,300
1900	51,989	20	11,883	.....	.....	648,000	.....	.....	15,431
1910(a)	74,673	26	12,863	.....	.....	832,000	.....	.....	19,207
1915(b)	85,000	20	14,335	366,377	625,110	991,487	10,240	9,328	19,970
1920	97,552	31	17,624	325,495	720,994	1,046,489	7,980	13,508	21,488
1925	114,720	37	19,980	.....	.....	.....	.....	.....	.....
1930(c)	107,034	33	16,492	180,086	1,049,489	1,229,575	5,044	20,043	25,087
1935(d)	137,291	35	17,554	45,354	1,049,576	1,094,930	930	21,755	22,685

* Average of adjoining fiscal years.

(a) Equipment figures for 1907.
(b) Equipment figures for 1914.
(c) Equipment figures for 1929.
(d) Equipment figures for 1937.

The post-war period has seen some important changes in the cotton trade in Canada, both in regard to the competitive position of the manufacturing companies and in the demand for fabrics. The specialization of the various companies, already referred to, remained substantially the same until the close of the war. The Canadian Cottons Ltd., as to-day, remained the principal manufacturer of stock-dyed and yarn-dyed fabrics, and the Montreal Cottons Ltd. continued as the chief producer of piece-dyed fabrics, except that the Wabasso Cotton Company Ltd. produced goods made with fine yarns. The Dominion Textile Company was the leading manufacturer of unbleached, bleached and printed goods. The disappearance of substantial demand for some of the older staple fabrics, such as gingham among the yarn-dyed fabrics, and bleached cambrics and longcloths formerly used in ladies' white underwear and petticoats, has caused the Canadian mills to develop new lines of production for which the same degree of specialization as existed formerly has not been maintained and, in addition, independent converting plants now purchase grey cloths and produce finished goods in competition with the integrated companies. It is said that at one time the basic grey cloths used for printing purposes could be counted on one's fingers, but these few lines sufficed for the limited range of drills, ducks, dress goods and shirtings then being produced in a small range of patterns and colours. At the present time one leading manufacturer produces over seventy-five different grey cloths for the print works and many more varieties are stocked or made as the demand arises.

The introduction of rayon fabrics has provided growing competition for goods made from the natural fibres, but in this case the new field of manufacturing has been entered by both silk and cotton weaving companies, as well as by one of the producers of rayon yarn in Canada.

The Woollen Industry

The manufacture of woollen goods in Canada has considerable antiquity as the production of "home-spun" cloth and flannels had been carried on from the early days of settlement. Woollen manufacturing remained a domestic handicraft industry until well into the nineteenth century. The spinning and weaving in the farm houses was aided by the introduction of small custom carding plants generally operated in connection with a grist mill or saw-mill and often utilizing water power.

The introduction of the factory system of manufacturing took place in the 40's and 50's of the last century. Looms utilizing water power had been introduced about the time of the Rebellion of 1837. James Rosamond started a woollen mill in Carleton Place in 1845, which he moved to Almonte in 1857, where the business is still being carried on. In 1866, Mr. Andrew Paton, who had started a woollen mill in Galt twelve years previously, started a factory at Sherbrooke, Quebec, which later became one of the largest woollen mills in Canada.

The abrogation of the Reciprocity Treaty in 1866, which resulted in the imposition of duties by the United States on Canadian wool, gave considerable stimulus to the industry. The following comment appears in the Annual Report of the Chief Agent for Immigration, 1866:—

". . . Another and most important element of our prosperity is the extensive erection of woollen factories. There is little doubt that the impulse to these is mainly owing to the high protective duty imposed by the American Legislature on Canadian wool in its raw state. The home market for this article is large, and will remain so for many years, and cannot fail to furnish a large increase of employment, both on the farm and in the factory, thus producing labour for the operative and the agricultural workman."

The Census of 1871 recorded 270 establishments engaged in the manufacture of wool cloth. These employed 4,443 workers and paid $917,827 in wages during the year. The net value of production was $2,290,000, of which $1,883,000 were reported by the 233 mills in Ontario. The production of homespun cloth was still an important item although the factory product was beginning to supplant the domestic article. In 1851 the production of hand looms was recorded as 6,516,000 yards, while in 1871 the total was placed at 7,642,000 yards, not including the Prairies or Prince Edward Island. By 1891 the total for all provinces was only 4,321,000 yards, of which more than half was produced in Quebec.

With the inauguration of the National Policy, in 1879, came the development of larger mills and the gradual disappearance of the custom carding and fulling mills and the custom weaving and small one-set mills. The tariff on woollen goods prior to 1879 had been the general rate of 17½ per cent which was changed on the adoption of the National Policy to 20 per cent and 7½ cents per pound, which meant a doubling in the rate of duty. Between 1870 and 1890 the number of mills increased from 270 to 377 and the number of wage-earners from 4,443 to 6,956, while the net value of production was $4,000,000 compared with $2,290,000 in 1870.

The progress of industry under the National Policy was examined by investigators appointed by the Government and the results of the inquiry were presented in a report to Parliament in 1885. The report stated that of 54 woollen mills from which information was obtained, 19 had been started after 1879, and these were employing 1,138 persons. The 35 mills which had been operating prior to the introduction of the National Policy had also increased employment. In the Jubilee Edition (June 1933) of the *Canadian Textile Journal* the nature of woollen manufacturing at this time is described in the following manner by Mr. George A. Matheson:—

"At that time very little foreign wool was handled and their business was practically confined to all domestic wool. Much more wool was grown in Ontario at that time, almost every farmer having a few sheep, the wool being used for clothing for the family and supplying the household with blankets, etc. The small woollen mills scattered all over the country handled the wool grown from the farmer mostly in trade for goods made in the mill, such as blankets, stocking yarn, grey flannel, coarse tweeds, etc. Many of these mills did an extensive trade in custom roll carding for home spinning."

In 1885, a new tariff item covering woollen fabrics, n.o.p., was introduced. This, apparently, covered light-weight fabrics such as dress goods. The duty on this class of fabrics was set at 22½ per cent, but in 1887 provision was made for a further classification on the basis of value with the duty ranging from 22½ per cent on fabrics costing 10 cents per yard or less to 27½ per cent on fabrics costing 14 cents per yard or more. These prices show that the goods were of extremely light weight. In 1890, the rate of duty on the general item covering blankets, flannels, etc., was changed to 20 per cent and 10 cents per pound or an addition of 2½ cents per pound in the specific duty. In 1894, the rate was again changed to 25 per cent plus 5 cents per pound and the duty on light weight fabrics imported to be finished in Canada at 22½ per cent, while on other fabrics the rate was set at 30 per cent.

The decade prior to the introduction of the British Preference is now looked upon as the heyday of woollen manufacturing in Canada. In 1897 the General Tariff was set at 35 per cent on all fabrics except the light weight grey goods on which the duty was advanced from 22½ to 25 per cent. The effective duty with the one-eighth British Preference was 30⅝ per cent on the general items. This became 26¼ per cent in 1898 and 23⅓ per cent in 1900. The aggregate production of Canadian mills has been placed at almost 14 million yards for 1899 and ten years later this had diminished to 7,616,000 yards according to the Canada Year Book, 1922-23. It is difficult to believe that the tariff reduction was solely responsible for the decline in woollen manufacturing in Canada from 1900 onwards, especially when the increase in the Preferential rate of duty to 30 per cent in 1904 did not serve to check the decline in the industry. The changing nature of the wool trade and the increasing specialization in Great Britain, with the consequent production of finer fabrics, undoubtedly affected the position of the Canadian industry. From now on Canadian mills were forced to import a considerable proportion of their raw materials in order to secure the advantages of the finer wools. The growing urbanization of the Dominion, with the development of large scale merchandising firms and the rise of the clothing trades, undoubtedly contributed to the supplanting of Canadian woollen and worsted goods by imported fabrics. Local manufacturers serving rural communities with staple lines of fabrics found themselves handicapped in the face of the growing demand for a wide variety of patterns and styles of cloth. The British manufacturers, serving a large market, could more efficiently meet the demands for variety than could the small Canadian mills. At all events, by 1910, there were only 87 wool cloth manufacturing establishments reported in the census with 4,263 employees as against 377 mills with 6,956 employees in 1890. The decline in Canadian manufacturing led to various attempts to stabilize the industry. In 1900 the Canada Woollen Mills Co. was organized to take over five woollen plants. But this merger failed in 1904 and four of the five mills ceased operations. The following table gives the significant figures for the Canadian wool cloth mills in the pre-war period:—

Year	Number of mills	Capital	Wage earners	Wages	Net value of production
		$		$	$
1870	270	2,776,814	4,443	917,827	2,290,481
1890	377	9,357,758	6,956	1,884,483	4,050,104
1900	154	10,486,198	6,170	1,724,333	3,560,239
1910	87	7,567,761	4,263	1,374,898	2,584,760
1915	52	8,479,492	3,534	1,393,914	3,430,220

NOTE.—In 1910 the Census classification was changed to firms employing more than 5 persons. The comparable figure for number of mills in 1890 is 213, but no significant changes are made in the other statistics by reason of the exclusion of small establishments.

The period of the war brought renewed prosperity to the Canadian wool cloth industry as mills were called upon to supply not only the demand of the civilian population, but also part of the military requirements. The number of mills increased from 52 in 1915 to 66 in 1920, and the number of workers from 3,534 to 5,235 in the same period. The war-time expansion was not maintained after the return to normal trade conditions. Mills in the United Kingdom, which had been largely engaged on war orders and the delayed demand in the immediate post-war boom, again turned their attention to their former export markets. In 1922 the duty on woollen and worsted fabrics was reduced from 30 per cent to 27½ per cent under the British Preference and in the following year the discount of 10 per cent on direct shipments under the British Preferential Tariff became operative.

Imports of wool fabrics, although advancing over the low levels of the war years, were considerably below the volume entering in the pre-war period. Exports of woollen and worsted tissues from the United Kingdom to Canada averaged 35,450,000 square yards in the five years preceding the war, whereas in the period from 1922 to 1926 the average was only 27,546,000 square yards, a decline of 22 per cent. The use of wool in women's clothing had probably declined in comparison with pre-war years due to the increased use of silk and other lighter materials, and the changes in styles of clothing. While the growing demand for industrial fabrics served partially to offset curtailment in other directions, the number of Canadian woollen and worsted mills declined from 66 to 1920 to 57 in 1925 and 46 in 1930.

The number of workers also decreased so that by 1930 there were 3,560 compared with 5,235 in 1920. In spite of the general decline in the industry during the decade, some mills operated successfully and the prospects seemed sufficiently bright in 1928 to lead to the merging of the Canadian Woollens Limited with the R. Forbes Company Limited, of Hespeler, Ontario, to form the Dominion Woollens and Worsteds Ltd. The Canadian Woollens Ltd., had been formed in 1919 to take over the Auburn Woollen Mills and the Bonner Worth Company (worsted spinners), Peterborough, and the Standard Woollen Mills, Toronto.

The increased protection granted the woollen industry in September, 1930, led to a revival in wool cloth manufacturing. Mills were re-opened and existing plants enlarged with a considerable expansion in employment and production. The following table indicates these changes in the industry in the post-war period:—

Year	Number of mills	Wage earners	Wages	Net value of production
			$	$
1920	66	5,235	4,604,483	13,298,152
1925	57	4,168	3,227,369	6,084,115
1930	46	3,560	2,681,823	5,743,742
1935	65	5,818	4,126,079	9,000,969
1936	60	5,947	4,372,159	9,943,521

Hosiery and Knit Goods

In contrast to the fluctuating fortunes of the wool cloth industry, the hosiery and knit goods branch has shown continued expansion during the present century. Power knitting machines were first installed in a factory at Ancaster, Ontario, in 1858, although a mill with hand machines had been started in Belleville in the preceding year. The first important development came with the manufacture of knitted woollen goods such as underwear and stockings. The Penman firm which is now the largest manufacturer of knit goods in Canada, began operations as a partnership in Paris, Ontario, in 1868, and a number of other knitting concerns, which are still in existence, had their start in the period from 1860 to 1890. Circular knitting frames were first used in a mill in Toronto in 1865 by Joseph Simpson, the founder of the firm of Joseph Simpson Sons, Ltd. Full fashioned underwear was first made in Galt about the same time by R. Turnbull, who established the business now carried on by C. Turnbull & Co.

The early census records are of somewhat doubtful value for the knitting trades owing to the large number of extremely small plants which came into operation from time to time, and the variation in the methods of recording establishments. According to the Census of 1890 there were 15 hosiery mills and 31 knitting plants employing more than 5 persons. These 46 factories had 1,699 workers and produced goods to the value of $1,703,785. By 1900 the number of factories had increased to 52 and the number of workers to 3,458. The manufacturing remained largely an Ontario industry, as 39 plants were located in that province with a gross production of $3,272,589 out of a total of $3,852,069 in 1900.

It was stated in the parliamentary report of 1885, already referred to, that the protective tariff had had a stimulating effect on the industry. The tariff on knit goods and hosiery adopted in 1879 was based on the component material. The duties on cotton knitted goods were established at 30 per cent, and on wool knit goods including hosiery at 20 per cent and 7½ cents per pound or the same rate as on other wool manufactures. In 1883 the duties on wool knit goods were advanced to 25 per cent and 10 cents per pound but no change was made on cotton knitted goods until 1887, when the rate was advanced to 35 per cent.

In the report on the National Policy already mentioned, it is reported that the government investigators secured information in 1884 from 20 knitting mills; 10 of which had commenced operations since 1879. The number of employees in these plants had increased from 611 in 1878 to 1,743 in 1884, and the gross value of production from $579,500 to $1,753,500. The report contains the following comment on the Canadian market at that time.

"Before the change in the fiscal policy these goods were largely imported from Great Britain, but advantage was soon taken of the opportunity given to make these articles in Canada, and a wonderful increase in the output here was the immediate result. The importations were soon stopped, and it took but a short time to ascertain that the production had gone beyond the consuming power of the people. The usual result followed, prices were cut down to below a paying figure, and the output was curtailed to a considerable extent.

Had it not been for the market, which, fortunately at that time, was opened in the North West, the result must have been a much more serious one for those engaged in this branch of manufacture. But largely owing to this cause the crisis which seemed imminent was averted and, considering the difficulties in which the trade found itself, the number who failed to weather the storm was exceedingly small. Although not yet in a thoroughly healthy condition, the prospects are beginning to brighten, some few lines not hitherto made in Canada are being started, and with careful management at this juncture a better state of affairs will undoubedly soon be reached."

In 1894 there was a general revision of the rates on knitted goods and hosiery. A separate item was established for wool hosiery with duties of 35 per cent and 10 cents per dozen pairs while other wool knit goods became dutiable at 35 per cent and cotton knit goods at 32½ per cent. This was a reduction in the rate on cotton goods, and probably on woollen lines, but the changes in the kinds of rates make comparisons difficult. In 1897 a general rate of 35 per cent was established for knitted goods, including cotton and wool hosiery and knit goods. The British Preferential rate became 30⅝ per cent in 1897, 26¼ per cent in 1898 and 23⅓ per cent in 1900 as the margin of preference was increased. The general revision of the tariff in 1907 again divided hosiery and knitted goods. The rates were then set as below:—

—	1907 tariff			Previous rates	
	B.P.	Int.	Gen.	B.P.	Gen.
	%	%	%	%	%
Hosiery	25	32½	35	23⅓	35
Knit Goods	22½	30	35		

Between 1900 and 1910 the knitting trades showed considerable expansion. A number of the wool cloth mills which had been closed were re-opened as knitting plants. New knitting firms were established and the older firms enlarged their plants. This was the period of the reorganization of the Penman firm which by 1902 was operating plants in Paris, Thorold, Port Dover, and Coaticook. The Monarch Knitting Company, some of the predecessors of the York Knitting Mills and the Chipman-Holton Knitting Company were among the larger firms which were started in the first decade of the century.

The number of employees increased about 4,000 between 1900 and 1910, and the gross value of production advanced almost 250 per cent. The next few years constituted a period of adjustment after this rapid growth but with the onset of the war the industry entered a further period of rapid development. Silk hosiery was coming into popular demand and plants were established by United States as well as Canadian interests to serve the growing market. The greatest stimulus came, however, from the war demands for knitted goods. Employment, which showed a slight decline in 1915 from the 1910 level, advanced to 11,479 in 1917 compared with slightly less than 8,000 in 1910. The census of 1920 recorded 128 hosiery and knitting plants as against 68 a decade earlier. The number of workers had increased to over 13,000 and the gross value of production was $56,736,545 compared with $13,393,854 in 1910 but, of course, a considerable part of this increase was due to the advance in prices. Quebec had now become an important manufacturing province for knit goods, accounting for 16 per cent of the number of workers while Ontario had 76·6 per cent.

While there was some recession during the early twenties the trend was soon reversed. The demand for the products of the industry grew as outer knitted garments became increasingly popular and silk hosiery became an accepted article of ladies' apparel. The number of mills recorded in the Census of Industry was 158 in 1930 and 163 in 1935. Between 1925 and 1930 the number of workers increased 27·7 per cent and the net value of production 35·1 per cent. Quebec assumed greater importance as a manufacturer of knitted goods with almost one-quarter of the employees in 1930 and more than 30 per cent in 1935. The proportions for Ontario, on the other hand, declined from 74·5 per cent of the workers in 1925 to 62·5 per cent in 1935 although there was an increase in the actual number of employees.

Silk and Rayon Industry

Silk manufacturing in Canada until the post-war period was restricted almost entirely to the production of sewing threads, silk twists, ribbons, braids, etc. The first spinning mill was established in Montreal in 1876 by Belding, Paul and Company as a branch of Belding Bros. and Co. of New York. In 1885 the Canadian branch absorbed the plant of the Corriveau Silk Mills in St. Johns, Quebec, which had first engaged in manufacturing in Montreal in 1883 but had failed in 1884. Another United States branch, the Corticelli Silk Company, was established in St. Johns in 1885 by the Nonotuck Silk Co. for the manufacture of sewing silks. These three plants constituted the silk industry of Canada until almost the outbreak of the World War. In 1911 the firm of Belding-Corticelli Ltd. was organized to take over the plants of Belding, Paul & Co. Ltd., Corticelli & Co. Ltd., Cascade Narrow Fabric Co. Ltd. and Oriental Silk Co. Ltd.

The manufacture of broad silk fabrics was commenced in Canada in 1922 by the Premier Silk Mills Ltd. of Cowansville, Que., which later became the Bruck Silk Mills Ltd. Other plants soon came into operation, the larger being Grouts Ltd., St. Catharines, Ont., which commenced manufacturing as a branch of an English firm in 1924 and Louis Roessel & Co. Ltd. established at Drummondville, Quebec, a few months afterwards. The position of these early mills was described in the following words by Mr. P. R. Watson, General Manager of Grouts Ltd. in his evidence:—

> "Because we had limited production amongst these original mills we were all able to eat off that top of the market and made a very good profit. Now the success of these mills brought in other mills . . . . ."

It may be noted that the manufacture of broad silks in Canada was not commenced as the result of any tariff changes. The duties on silk goods appear to have been set largely for revenue purposes. The general tariff rate of 17½ per cent became 25 per cent on silk thread and twists and 30 per cent on fabrics and ribbons in 1879. The rate under the general tariff on broad silk remained at 30 per cent until 1928 when it was advanced to 35 per cent. The British Preference reduced the duty on broad silks to 20 per cent in 1900, and, under the 1907 tariff, the rate was set at 17½ per cent which remained unchanged until 1930, except for the 10 per cent discount for direct shipments after 1923. The Intermediate Tariff, which was the most important for silk imports as it applied for instance to France and Japan, was established at 27½ per cent on broad silks in 1907 and remained at this rate until 1928 when a duty of 32½ per cent was established, less 10 per cent under the French Treaty for fabrics over 26 inches in width, or 29¼ per cent.

As Mr. Watson has stated, the prosperity of the original mills attracted new undertakings. The census reports show figures for all silk and rayon firms together so it is somewhat difficult to trace the movements in the several branches of the industry from this source. The industrial census of 1920 shows 5 silk manufacturers, 4 in Quebec and one in Ontario, with 1,107 workers. These figures would include the original silk thread and ribbon manufacturers and the newer throwsters and broad silk manufacturers as well as the recently established rayon plant of Courtaulds Ltd. The production of broad silk in 1926 was over one million yards compared with less than half a million in the preceding year.

Silk weaving developed rapidly from 1928 onwards as new plants were built and existing plants enlarged. The growth was not halted by the onset of the depression, as the imposition of higher duties on imports in 1930 and 1931 gave the Canadian market almost entirely to domestic manufacturers. The mills which so far had been manufacturing only silk fabrics found a growing public demand for the newer rayon fabrics and from 1927 on increasing quantities of the synthetic product were turned off the looms. In fact, by 1932 the yardage of rayon fabrics exceeded that of broad silk and in the following year the proportion was three to one, the production of rayon fabrics having advanced so rapidly.

The growth of silk and rayon weaving is reflected in the figures for looms compiled by the Dominion Bureau of Statistics:—

NUMBER OF LOOMS IN SILK AND ARTIFICIAL SILK INDUSTRY

Year	Total	Over 40"	40" or less	Other
1927	765	602	137	26
1928	990	767	128	95
1929	1,505	1,392	18	95
1930	2,100	1,967	95	38
1931	2,362	2,082	217	63
1932	2,518	2,290	142	86
1933	3,081	2,572	428	81
1934	3,534	2,868	575	91
1935	4,002	3,384	476	142
1936	4,141	3,427	559	155

The production of artificial silk or rayon represents the triumph of synthetic chemistry combined with modern engineering skill in producing a synthetic material which has begun to rival the natural fibres. The phenomenal growth of rayon production in the post-war period is the culmination of research and experiments running back to the seventeenth century. Commercial production, however, can scarcely be said to have commenced until the beginning of the 20th century when the viscose process was successfully developed. The Courtauld Company commenced operations in England, in 1904, and about the same time plants were started in Germany, France, Austria, Belgium and Switzerland. Many efforts were made to establish the industry in the United States, but none were successful until the Courtauld Company took up all the patent rights to the viscose process and organized the American Viscose Company in 1910. By the outbreak of the Great War the world production of artificial silk yarns was about 22 million pounds annually, of which about one-half was made in Great Britain. The activities of the industry were then largely diverted to war purposes and commercial development lagged. In the post-war period the industry commenced the phenomenal expansion which resulted in production rising from 33 million pounds in 1920 to 435 millions in 1929 and 1,000 millions in 1936. In 1920 the United States was the leading producer with 31 per cent of the world's total, followed by Great Britain, 18 per cent; Germany, 16 per cent; France, 10 per cent. By 1929, the United States' share was 28 per cent; Great Britain, 12 per cent; Germany, 13 per cent; France, 10 per cent and Italy, 17 per cent. Japan replaced Italy as the largest non-American producer in 1932 and at the present time is producing on as large a scale as the United States.

This brief comment on the development of rayon production appears necessary for an understanding of the growth of the industry in Canada. As the successful operation of the yarn producing plants depends on chemical knowledge and engineering skill, the European manufacturer with his control of patents, his knowledge of the technique of production and experience in commercial manufacture, proved to be the only one capable of commencing successful manufacture on the American continent. The Courtauld Company, as has already been mentioned, established its subsidiary in the United States in 1910, but was content to export to Canada until 1924, when their plant was built in Cornwall. The only other artificial silk plant in Canada was not established until 1927, when the Celanese interests of Great Britain and the United States combined to organize the Canadian Celanese Company for the production of yarn by the cellulose acetate process.

Prior to 1923, artificial silk yarns had entered free of duty when imported by manufacturers. Other artificial silk products were dutiable under the cotton schedule. The yarn was made dutiable in 1923 with rates of 12½ per cent under the British Preferential tariff, 17½ per cent under the Intermediate and 20 per cent under the General tariffs for single strand yarns, while ply yarns had rates of 17½ per cent, 22½ per cent and 25 per cent. At the same time duties of 17½ per cent, 32½ per cent and 35 per cent were placed on artificial silk fabrics and mixtures, under the Preferential, Intermediate and General tariffs.

When Courtauld Company commenced operations in Canada in 1924, the bulk of their sales were to the knitting trades but in recent years the weavers have become the most important customers providing more than 60 per cent of the Company's sales in 1936. Courtaulds (Canada) Limited have continued as the sole producers of viscose yarns in Canada, but in 1927 the Canadian Celanese Company commenced the production of acetate yarns at the newly-built plant in Drummondville, Quebec. These two firms have several contrasting features. The Courtauld Company manufactures its viscose yarn by a chemical process from wood pulp and disposes of its product only in the form of yarn. The Celanese Company, on the other hand, uses the cellulose acetate process with cotton linters, and further processes its yarns into fabrics and other artificial silk products. Neither company has attempted to develop an export trade in yarn although weavers are shipping increasing quantities of fabrics to the United Kingdom and the other Dominions.

The trend of Canadian production and importation of artificial silk is shown by the figures in the following table:—

2. APPARENT CANADIAN CONSUMPTION OF ARTIFICIAL SILK YARNS (IN POUNDS) 1925–1936

Year	Courtaulds (Canada) Limited	Canadian Celanese	Canadian Production	Imports	Apparent Consumption
1925	507,528	....	507,528	1,667,493	2,175,021
1926	1,921,622	....	1,921,622	1,324,912	3,246,534
1927	2,512,829	366	2,513,195	1,568,260	4,081,455
1928	3,153,369	203,365	3,356,734	1,986,742	5,343,476
1929	3,280,994	403,657	3,684,651	2,114,633	5,799,284
1930	3,535,822	1,091,505	4,627,327	2,263,993	6,891,320
1931	4,376,264	1,495,497	5,871,761	1,772,341	7,644,102
1932	5,197,574	2,127,506	7,325,080	989,205	8,314,285
1933	4,567,601	2,766,515	7,334,116	1,593,760	8,927,876
1934	6,718,213	3,832,719	10,550,932	1,084,791	11,635,723
1935	8,467,205	4,748,412	13,215,617	1,214,656	14,430,273
1936	8,064,670	5,557,959	13,622,629	1,167,936	14,790,565

The expansion of the silk and artificial silk industry has thus taken place in both the weaving and yarn producing sections. Raw silk, of course, is still imported, chiefly from Japan, although indirectly through the United States, to be thrown and spun in Canada. The phenomenal growth of all branches of the industry is shown by the combined figures from the census returns.

3. PRINCIPAL STATISTICS OF SILK AND ARTIFICIAL SILK INDUSTRY

Year	Number of Mills	Capital	Wage-Earners	Wages	Net Value of Production
		$		$	$
1920	5	4,901,679	1,107	705,480	1,937,959
1925	11	9,224,224	1,561	1,089,741	2,122,328
1930	25	30,506,060	4,957	3,915,585	10,175,269
1935	33	35,063,023	9,184	6,717,084	17,098,601
1936	35	34,947,643	9,168	6,866,229	16,198,450

Organization of the Industry

The nature of the organization of the various branches of the textile industry in Canada is largely a reflection in each case of the amount of capital necessary to erect and operate a plant and the technical difficulties in manufacturing. The cotton industry, as has been shown, commenced with a number of independent manufacturing concerns with individual plants located at widely scattered points in Ontario, Quebec and the Maritime Provinces. It was not long, however, until a marked movement commenced toward the amalgamation of the individual concerns and the concentration of manufacturing in fewer centres. While sporadic efforts have been made in the same direction in the woollen industry, the attempts so far have not proved successful. The artificial silk industry, on the other hand, although of recent growth, is an example of a manufacturing industry into which only corporations able to command large amounts of capital and to draw upon the engineering skill and experience developed elsewhere could hope to enter. The following table indicates the average size of the manufacturing plants in the various branches of the textile industry:—

4. SIZE OF MANUFACTURING ESTABLISHMENTS, 1935

Division	Number of Establishments	Average per Establishment		
		Gross Value of Production	Capital Invested	Number of Employees
		$	$	
Artificial Silk Yarn	2	6,798,607	9,860,849	2,169
Cotton Yarn and Cloth	35	1,696,533	2,021,189	518
Cotton Thread	5	735,035	560,981	139
Silk	31	466,068	498,881	186
Hosiery and Knit Goods	163	284,602	307,048	114
Wool Cloth	65	297,589	301,856	97
Wool Yarn	34	254,345	256,901	77
Carpets	24	141,252	282,003	45

While averages indicate the relative size of operating units in the various branches of the industry, they fail to reveal the extent to which production may be concentrated in a few large establishments or controlled by large corporations. From the census reports it is possible to make an analysis of the size of factories for the more important divisions of the industry:—

5. DISTRIBUTION OF EMPLOYEES ACCORDING TO AVERAGE NUMBER OF WORKERS IN EACH ESTABLISHMENT, 1935

Establishments having an average employment of	Cotton yarn and cloth		Silk (ex. art. silk)		Hosiery and knit goods		Wool cloth	
	No. of est.	Per cent	No. of est.	Per cent	No. of est.	Per cent	No. of est.	Per cent
Under 50 employees	....	....	10	6·2	90	10·1	38	11·2
50 to 99 employees	5	1·6	5	6·3	20	6·8	6	6·5
100 to 199 employees	6	4·1	6	15·4	20	15·3	12	26·7
200 to 500 employees	11	20·9	7	34·1	26	41·6	9	55·6
500 employees and over	13	73·4	3	38·0	7	26·2		
Total	35	100·0	31	100·0	163	100·0	65	100·0

The cotton yarn and cloth division is predominantly a large-scale industry as is artificial silk manufacturing. In the other branches of the industry shown in the above table small plants are characteristic but these provide only a small part of the employment. A few medium and large-sized plants dominate most branches of the textile industry in spite of the comparatively large number of small concerns which are operated.

The relative size of individual plants is only one part of the picture. It is also necessary to determine the position occupied by large corporations in the several branches of the industry. In the cotton yarn and cloth field the Dominion Textile Company Ltd. holds a predominant position. If the specialty concerns are excluded, we find that in 1937 the machine equipment in this branch was distributed as follows among the different companies:—

PERCENTAGE DISTRIBUTION OF MACHINE EQUIPMENT COTTON YARN AND CLOTH MILLS, 1937

	Spindles		Looms	
	Per cent		Per cent	
Dominion Textile Co. Ltd. (including Drummondville Cotton Co. Ltd.)	47·7	61·7	48·3	63·8
Montreal Cottons Ltd	14·0		15·5	
Canadian Cottons Ltd	17·5		22·0	
Cornwall and York Cotton Mills Ltd				
Wabasso Cotton Co. Ltd	9·2		7·8	
Empire Cottons Ltd	2·5		3·9	
Goodyear Cotton Co. Ltd	3·8		0·2	
Hamilton Cotton Co. Ltd	2·4		0·5	
Cosmos Imperial Ltd	2·4		1·0	
Dominion Fabrics Ltd	0·5		0·8	

The predominant position of the Dominion Textile Company in this branch of the industry is further revealed by the figures prepared by the auditor for the Commission on the sales of the various companies. As the Dominion Textile Company Ltd. acts as sales agent for the Montreal Cottons Ltd. the combined figures are more significant.

DISTRIBUTION OF TOTAL SALES OF COTTON YARN AND CLOTH COMPANIES, 1935

Dominion Textile Co. Ltd	37·9	52·7%
Drummondville Cotton Co. Ltd	4·1	
Montreal Cottons Ltd	10·7	
Canadian Cottons Ltd	17·2	17·7%
Cornwall & York Cotton Mills Co. Ltd	·5	
Wabasso Cotton Co. Ltd	9·8	
Empire Cottons Ltd	3·4	
Goodyear Cotton Co. Ltd	5·6	
Hamilton Cotton Co. Ltd	5·2	
Cosmos Imperial Ltd	3·8	
Dominion Fabrics Ltd	1·8	

Cotton Thread Manufacturing

The census of 1935 showed that there were five cotton thread manufacturers in Canada. Three of these firms, the Bell Thread Co. Ltd., The Canadian Spool Cotton Co. Ltd. and Cotton Threads Ltd. were included in the financial survey made by the Commission auditors, and may be taken as constituting the larger part of the division. The Canadian Spool Cotton Co. Ltd. is a subsidiary of J. & P. Coats Ltd., the international thread manufacturing company. In 1935, the Canadian Spool Cotton Co. Ltd. had 67·5 per cent of the total sales reported by the three firms mentioned above and may thus be said to hold the predominant position in this branch of the industry.

Woollen Industry

In the Dominion Bureau of Statistics reports the woollen industry is divided into the cloth and yarn divisions. As some of the yarn plants are operated by companies which also engage in cloth manufacturing, the Commission auditor grouped the two sections but dealt separately with two firms which specialize in the manufacture of paper-makers' felts.

It has been shown that while there are a considerable number of small plants in the woollen industry the medium and large-sized plants, which are relatively few in number, provide the greater part of the employment and handle the bulk of the business. Of the 31 woollen companies whose operations are summarized in Exhibit 1017 we find that the following eleven companies had 66·4 per cent of the sales in 1935.

			Per cent
Dominion Woollens and Worsteds Ltd			14·4
Barrymore Cloth Co. Ltd.	Subsidiaries of	6·2	8·7
Campbellford Cloth Co.	Toronto Carpet Co	2·5	
Patons & Baldwins Ltd			7·9
Slingsby Mfg. Co. Ltd			7·7
York Knitting Mills Ltd			6·0
Guelph Carpet & Worsted Spinning Mills Ltd			5·6
Renfrew Woollen Mills Ltd			4·8
Paton Mfg. Co. Ltd			4·7
Hield Bros. Ltd			4·3
Renfrew Textiles Ltd			2·3

The concentration of manufacturing in the hands of a few companies is far from being complete and the tabulation given above fails to take into account the diversity of products made by the companies listed. Some firms manufacture balled yarn and others yarns for the knitting or weaving trades, while still other companies engage in all processes from spinning to the production of the finished goods. It should also be noted that apart from the Dominion Woollens and Worsteds Ltd. a number of the other companies are of roughly equal size and this equality is more pronounced in the production of any one line of product. While the industry might be dominated by an association of the larger manufacturers, no one firm appears to have a predominant position.

Silk Industry

The division of the artificial silk yarn production between two manufacturers utilizing different processes has already been described. The organization of the silk weaving and allied trades may now be considered. The table given earlier shows that of the 31 silk factories in 1935, three reported 38 per cnt of the total number of employees. Ten mills, including the three largest, had 72 per cent. The Commission auditors reported on 15 silk companies. The sales of these 15 companies amounted to $12,167,087 in 1935 and were divided among the companies in the following proportions:—

	Per cent
Belding-Corticelli Ltd	21·3
Associated Textiles of Canada Ltd. and Rayons (Canada) Ltd	21·3
Bruck Silk Mills Ltd	13·6
Riverside Silk Mills Ltd	12·3
Grout's Ltd. and Valleyfield Silk Mills Ltd	11·6
Remaining 8 companies	19·9

As these companies are not all engaged in the production of the same lines of goods the figures above do not represent the share of the business attributable to any one firm in a particular line. As has already been pointed out, the silk weaving industry now produces more yards of rayon fabrics than real silk. On the other hand, the production of rayon fabrics has also been undertaken by the cotton mills. The relative position of the various companies in the production of rayon or artificial silk fabrics is indicated by the statements for deliveries of all-rayon fabrics in 1936, furnished by the larger companies to the Commission. The figures from these statements taken in conjunction with the Census of Industry reports show that the all-rayon or artificial silk fabric business was divided in 1936 on the basis of yards shipped, as follows:—

		Per cent of total yards shipped
Canadian Celanese Co. Ltd.		42·1
Dominion Textile Co. Ltd.	8·4 per cent	15·2
Montreal Cottons Ltd.	6·8 per cent	
Associated Textiles of Canada Ltd.		7·9
Bruck Silk Mills Ltd.		6·1
Canadian Cottons, Ltd.		6·1
		77·4

Hosiery and Knit Goods

This division, as has already been pointed out, embraces firms manufacturing silk hosiery as well as those engaged in the production of knitted goods. While these two lines of activity are generally carried on in separate plants, some of the larger companies such as Penmans Ltd., Monarch Knitting Co. Ltd. and Zimmerknit Co. Ltd., which are primarily knitting firms, engage in the manufacture of silk hosiery either directly or through subsidiaries. The analysis of the census figures previously set out shows that in the two branches of the industry taken together 7 factories had 26·2 per cent of the workers in 1935 and 26 smaller plants had 41·6 per cent, so that 33 of the 163 plants had 67·8 per cent of the workers.

The auditor for the Commission divided the hosiery and knit goods companies on the basis of their major activity as silk hosiery manufacturers or knitters. The financial records of 53 companies and subsidiaries are contained in the auditor's financial summary for the knitting division. Only 11 companies reported sales amounting individually to more than 3 per cent of the total reported and of these only one firm, Penmans Ltd., had more than 15 per cent of the total sales. The proportion of the total business handled by these large companies in 1935 was as follows:—

	Per cent
Penmans Ltd.	17·8
Eaton Knitting Co. Ltd.	7·5
Ontario Silknit Ltd.	6·6
Monarch Knitting Co. Ltd.	5·8
Mercury Mills Ltd.	5·8
Zimmerknit Co. Ltd. and Harvey Knitting Co. Ltd.	5·7
Regent Knitting Mills Ltd.	5·5
Newlands & Co. Ltd.	4·2
J. R. Moodie Co. Ltd.	4·1
Jos. Simpson Sons Ltd.	3·6
Stanfields Ltd.	3·6
	70·2

The Commission auditors included 25 companies in the summary of the hosiery division. It must be remembered that figures for the silk hosiery plants of knitting companies are included in the knitting division and that hosiery companies produce products other than silk hosiery. Of the 25 companies included in the auditor's report, 9 had sales in 1935 which exceeded 5 per cent of the total, but only one firm, Julius Kayser & Co. Ltd., had more than 20 per cent. The proportions for the individual companies were:—

	Per cent
Julius Kayser & Co. Ltd.	20·2
Canadian Silk Products Ltd.	9·2
Weldrest Hosiery Ltd.	8·1
Holeproof Hosiery Co. Ltd.	7·3
Circle-Bar Knitting Co. Ltd.	6·2
Hosiers Ltd.	5·5
National Hosiery Mills Ltd.	5·5
Toronto Hosiery Co. Ltd.	5·5
Supersilk Hosiery Mills Ltd.	5.4
	72·9

Again it is evident that only through an association of manufacturers would it be possible to establish control over production or prices in this branch of the industry.

Carpet Manufacturing

The Dominion Bureau of Statistics reported 24 carpet and rug manufacturing plants for the year 1935. A number of these plants were relatively small and were engaged in making small rugs and novelty products. Four of the larger carpet manufacturing companies are included in the auditor's report to the Commission. These four companies accounted for approximately 90 per cent of the industry in 1935. By far the largest company is the Toronto Carpet Manufacturing Co. Ltd., which also engages in the production of woollen goods through its subsidiaries, the Barrymore Cloth Co. Ltd. and the Campbellford Cloth Co. In 1935 the Toronto Carpet Manufacturing Co. Ltd. accounted for 40·3 per cent of the sales of the four carpet companies. The proportions of the other three were as follows:—

	Per cent
Harding Carpets Ltd.	24·3
Brinton-Peterboro Carpet Co. Ltd.	23·0
Cobourg Matting & Carpet Co. Ltd.	11.9

Carpet manufacturing had been started in Canada in some of the early woollen mills but in 1885 there were only 135 carpet looms, of which 100 were still hand looms. The manufacture of fine carpets has always been confined to a few companies. The Toronto Carpet Manufacturing Co. was first organized in 1891 and the Brinton-Peterborough Company in 1910, while the Harding Carpet Co. was not organized until 1927.

Control of the Industry

The textile industry is largely controlled by Canadian interests. In only a few branches do British or United States controlled companies handle any large part of the trade. The artificial silk yarn branch is a notable exception, as there are only two manufacturing concerns, one of which is controlled by the parent company in England and the other by British and United States interests. In the case of the thread companies it has already been mentioned that the largest company is a subsidiary of a Scottish firm.

The cotton yarn and cloth companies and the carpet companies are controlled by Canadian interests. In the silk and hosiery divisions a substantial proportion of the investment is controlled by United States interests. The following table prepared from the proceedings of the Price Spreads Commission indicates the situation in 1933 for the silk, woollen, hosiery and knit goods branches of the industry:—

CONTROL OF CAPITAL INVESTED IN CANADIAN MANUFACTURING PLANTS, 1933

	Silk	Woollens	Hosiery	Knit Goods
	Per cent	Per cent	Per cent	Per cent
Canadian	69·2	83·7	54·6	98·7
United States	20·8	5·3	23·5	0·9
Great Britain	10·0	11·0	....	....
Canadian and United States (jointly)	....	....	21·9	0·4
Total	100·0	100·0	100·0	100·0

Location of the Industry

The textile industry in Canada is concentrated in the provinces of Quebec and Ontario with a substantial, but relatively small, proportion in the Maritime Provinces. Quebec leads in cotton, silk and thread manufacturing, while Ontario is first in woollens, hosiery and knit goods, carpets, specialty fabrics and cordage.

In 1935, the cotton yarn and cloth industry was divided between the provinces roughly as follows, Quebec, 65 per cent; Ontario, 27 per cent; Maritime Provinces, 8 per cent. Manufacturing in the Maritime Provinces had been declining relatively since 1900 and actually since the end of the war. The development of specialty manufactures in Ontario during recent years has tended to maintain the position of that province.

The proportion of woollen cloth manufacturing in the various provinces tends to change with the relative prosperity of the industry. In the period of expansion prior to the late nineties Quebec increased in importance as a woollen manufacturing province, containing roughly 20 per cent of the industry in 1900. But with the decline in the industry Quebec's share dropped to about 10 per cent in 1920. The position held by the Maritime Provinces has likewise changed, falling from roughly 12 per cent in 1910 to 3 per cent in 1935. The proportion of manufacturing in Ontario has, of course, changed inversely with the movements in the other provinces. The expansion in the industry since 1930 increased the proportion of the industry in Quebec to 24 per cent in 1935, while Ontario's share was about 73 per cent. Woollen yarn manufacturing as a separate branch was carried on the extent of about 86 per cent in Ontario in 1935.

Silk manufacturing, as the history of the industry shows, was confined almost entirely to Quebec until the outbreak of the war. In 1925, however, there were 6 plants in Quebec and 4 in Ontario, excluding artificial silk factories. Five years later the number of plants had increased to 14 in Quebec and 9 in Ontario. Since 1930 more silk mills have been established in Quebec than in Ontario, the number in operation in 1936 was, Quebec—23, Ontario—10. If the data for artificial silk plants are excluded from the census figures, it will be found that, on the basis of employment, Quebec held 79 per cent of the industry and Ontario 21 per cent in 1935.

The proportion of hosiery and knit goods manufacturing has been increasing relatively in Quebec since 1915 when the provincial distribution was, roughly, Ontario—87 per cent, Quebec—4 per cent, Maritime Provinces— 8 per cent, other provinces—1 per cent. By 1935 Quebec's share had increased to 30 per cent while Ontario had 63 per cent. The report of the Price Spreads Commission gives some indication of the relative distribution of hosiery manufacturing and knit goods manufacturing. In 1934 Ontario accounted for 50·7 per cent and Quebec for 45·0 per cent of the employment in hosiery mills. But for the knitting mills the proportions were—Ontario, 68·9 per cent and Quebec, 22·8 per cent while other provinces accounted for 8·3 per cent.

Representatives for the industry stressed the importance of textile manufacturing in the smaller cities and towns throughout eastern Canada and the fact is, that in a number of cases the textile factory forms the sole or chief source of industrial employment in the community. The following table compiled from data in the proceedings of the Price Spreads Commission shows the extent to which employment in the textile industry was distributed between communities of various sizes:—

6. DISTRIBUTION OF EMPLOYMENT IN THE PRINCIPAL BRANCHES OF THE TEXTILE INDUSTRY ACCORDING TO SIZE OF LOCALITY IN WHICH MILLS WERE OPERATING FEBRUARY, 1934

Size of Locality (Population)	Cotton Yarn and Cloth		Silk (ex. Art. Silk)		Woollens		Hosiery		Knit Goods	
	Ont.	Que.	Ont.	Que.	Ont.	Que.	Ont.	Que.	Ont.	Que.
	Per cent.	Per cent.	Per cent.	Per cent.	Per cent.	Per cent.	Per cent.	Per cent.	Per cent.	Per cent.
5,000 or less	4·5	11·3	....	61·0	28·6	65·1	20·7	9·7	21·0	10·7
5,000 to 15,000	61·8	40·1	50·2	22·7	21·6	5·7	8·7	20·7	14·3	29·3
15,000 to 50,000	....	22·7	33·4	....	26·8	29·2	8·7	59·1	13·8	3·2
50,000 to 250,000	33·7	4·4	....	....	1·9	....	41·7	....	32·2	....
Over 250,000	....	21·5	16·4	16·3	21·1	....	20·2	10·5	18·7	26·8
Total	100·0	100·0	100·0	100·0	100·0	100·0	100·0	100·0	100·0	100·0

CHAPTER III

CHANGES IN THE STRUCTURE OF WORLD TEXTILE TRADE

Following upon the history of the textile industry in Canada which has just been narrated, it will now be in order to review briefly the world-wide position of this industry in recent years and, in so far as is possible, up to the present time.

World textile trade has undergone far-reaching changes since the post-war period both in regard to the international trade in textile products and in the manufacturing operations in the individual countries. While these movements had a gathered force during the war and immediate post-war periods, they became accelerated with the onset of the depression. During the time when the international trade in textiles and the manufacturing in the principal exporting countries was subjected to severe disturbances which in many cases resulted in serious losses, the industry in Canada through governmental action was sheltered to a large extent from the effect of the international shifts in production and trade. It is necessary therefore to make some mention of the changes that have taken place in the principal textile manufacturing and exporting countries, in order to appraise properly the measure and the efficacy of the protection given the Canadian industry during the depression period. This was at a time when our national income was greatly reduced and when our exports, such as wheat, flour, newsprint paper, lumber, fish, etc., had suffered from the decline in world prices and the depression in international trade.

The following paragraphs contain a brief examination of the general movement in production and trade in the principal countries during the post-war period and the severe disturbances which were caused by the recent depression and by the various governmental policies in regard to monetary control, trade regulation and national self-sufficiency. To a considerable extent, reliance is placed here upon the report prepared by the International Labor Office on the World Textile Industry and presented to the tripartite Textile Conference held in Washington, D.C., in the Spring of 1937.

Cotton Textile Manufacturing

The changes in cotton textile manufacturing, which have given rise to the most pressing problems, may be described as follows:—

1. Among the older manufacturing countries, the importance of the United Kingdom has been diminishing while that of Japan and India has been increasing;
2. Cotton manufacturing has been developing rapidly in "newly industrialising" areas, notably China, Latin America and the Balkan countries;
3. In the two largest textile manufacturing countries—India and the United States—production has been shifting from regions of higher to regions of lower labour costs;
4. Cotton manufacturing in several European countries has been subjected to more or less permanent market disequilibrium as a consequence of the boundary changes following the conclusion of the World War;
5. Difficulties in obtaining raw materials by reason of foreign exchange control and bilateral trade agreements have created peculiar structural problems for cotton manufacturers in such countries as Germany and Italy.

The decline in importance of the United Kingdom as a manufacturer of cotton textiles and the advance of production in Japan and the "new textile countries" may be measured in several ways. Between the crop years 1912-13 and 1928-29, the consumption of raw cotton in the United Kingdom dropped from 4,644,000 bales to 3,195,000 bales, while the world consumption increased. The proportion of raw cotton consumption dropped from 21·1 per cent in the United Kingdom in the earlier year to 12·4 per cent for 1928-29, while that for Japan increased from 6·5 per cent to 10·5 per cent. The following table shows the shift in production between the pre-war and post-war periods and also the further change during recent years.

7. WORLD CONSUMPTION OF COTTON

(Thousands of bales)

—	1912-1913		1922-1923		1928-1929		1933-1934		1935-1936		1936-1937	
		%		%		%		%		%		%
United States	5,483	25·0	6,666	31·3	7,091	27·5	5,700	22·5	6,351	23·0	7,952	25·8
United Kingdom	4,644	21·1	2,825	13·2	3,195	12·4	2,684	10·6	2,846	10·3	3,082	10·0
Continental Europe	7,514	34·2	5,304	24·9	7,902	30·6	7,995	31·6	8,041	29·1	8,537	27·7
India	1,843	8·4	1,751	8·2	1,682	6·5	2,133	8·4	2,550	9·2	2,558	8·3
Japan	1,435	6·5	2,348	11·0	2,695	10·5	3,130	12·4	3,602	13·0	3,945	12·8
China	....		1,571*	7·3	2,036	7·9	2,345	9·3	2,488	9·0	2,681	8·7
Canada	131	·6	203	1·0	255	1·0	259	1·0	263	1·0	308	1·0
Other countries	913	4·2	657	3·1	926	3·6	1,078	4·2	1,486	5·4	1,757	5·7
ALL COUNTRIES	21,965	100·0	21,325	100·0	25,782	100·0	25,324	100·0	27,027	100·0	30,820	100·0

*1923-24.

The figures for cotton spindles show the decline in the spinning capacity in the United Kingdom and the United States during the depression and the rapid advance in productive capacity in such countries as China, British India and Japan.

8. NUMBER OF COTTON SPINDLES—1914-1936

(in thousand spindles)

—	1914	1923	1929	1936
Canada	860	1,076	1,240	1,152
United States	31,520	37,225	34,829	29,040
Mexico	750	770	751	862
Brazil	1,400	1,680	2,750	2,711
China	1,350	2,552	3,602	4,952
British India	6,397	7,331	8,704	9,686
Japan	2,415	4,754	6,530	10,595
United Kingdom	55,972	56,613	55,917	42,307
All countries	144,704	155,981	164,211	153,310

The available statistics for power looms indicate that the changes in weaving capacity have taken the same direction as that indicated by cotton consumption and the number of cotton spindles. Between 1914-1929, the number of looms decreased by 8 per cent in the United Kingdom, but increased by nearly 300 per cent in Japan, 77 per cent in India, and 409 per cent in China, while the increase for all countries in the same period was 11 per cent.

The movements in machine equipment and raw cotton consumption are related to the general trends in the output of cotton goods. Figures for production show that the output of yarns and piece goods has been declining in the United Kingdom while production in recent years has grown greatly in Japan and India. The following table from the World Textile Industry illustrates the tendencies which have been discussed:—

9. PRODUCTION OF COTTON YARN AND PIECE GOODS, UNITED KINGDOM, JAPAN AND INDIA, 1912-1936

—	1912	1924	1930	1935	1936
Yarn (Million lbs.)—					
United Kingdom	1,983	1,395	1,047	1,225	1,310
Japan	661	829	1,010	1,424	1,475
India	683 *(a)*	647	861	1,040	1,047
Piece Goods—					
United Kingdom: Million sq. yds.	8,050 *(b)*	6,026	3,399	3,354	....
Japan: Million sq. yds.	(not available)	2,965 *(c)*	3,159	4,908	4,678
Japan: Yarn consumed: Million lbs.	(392)	(922) *(c)*	....	....	....
India; Mill Production:—					
In million linear yards	....	1,841	2,494	3,555	3,528
In million lbs	(274) *(a)*	(430)	....	....	....

NOTE: *(a)* 1912–1913.
(b) Million linear yards.
(c) 1926.

The increase in the production of cotton goods in India and China and to a lesser extent in the "newer textile countries," in which manufactures are developing to supply the protected home market, has had profound effects on the trade of the major exporting countries. The reduction in importations by India has been one of the major causes in the decline of the cotton industry in the United Kingdom, while the loss of markets in China has stimulated Japan to find other outlets for her increasing cotton production.

While the United States has been faced by some loss in export markets, her domestic consumption has been so large that imports and exports have been small in comparison with the production of the United States mills. The major problems in the cotton textile industry in the United States have arisen out of the shift of cotton manufacturing from the New England to the Southern States and the consequent creation of excess capacity in the industry. This shift in the bulk of cotton manufacturing from north to south is not of recent development, but has extended over the past thirty years. In the early period, it was not occasioned by the decline in the activity of the northern states, but represented a more rapid development in the cotton growing states than in New England, but, from about 1922 onwards, the north lost both relatively and actually while the southern mills continued to expand until the depression. In 1904-1909 New England accounted for approximately half of the cotton industry in the United States, but by 1933 this area produced only 20 per cent of the woven goods and accounted for approximately 24 per cent of the value of production and number of wage-earners. The absolute decline in the position of the New England mills was not quite as great as the percentages indicate, as during the thirty years the production of cotton goods had materially increased. In 1909, New England produced 3,200 million yards out of a total production of 6,350 million yards, while in 1933, with a total production of 8,089 million yards, New England's share was 1,600 million yards.

The loss in manufacturing activity in many individual centres has created serious problems not only for the industry but for communities in which the mills are situated. The report on the cotton textile industry made by a cabinet committee to the President of the United States in August, 1935, contains the following comment:

"....the evidence is clear that mill closings in New England, which occurred prior to 1933, have left large stranded populatons which will probably never be reabsorbed in cotton manufactures. Further loss in spindlage will accentuate this already serious national problem."

The industrial changes in various countries and the fluctuations in general business activity have profoundly affected the course of the world trade and the production of cotton manufactures. Exports of cotton piece goods fell heavily during the depression while those of cotton yarn declined less. Mill consumption of raw cotton, on the other hand, was fairly well maintained and during the past year has exceeded the 1929 level due to the increased activity in manufacturing in practically all countries.

10. WORLD PRODUCTION AND WORLD TRADE IN COTTON TEXTILES 1929-1936

—	1929	1931	1933	1935	1936
Production (mill consumption of raw cotton).......	100	87	96	99	107
Exports of yarn..................................	100	83	76	75	74
Exports of piece goods...........................	100	63	68	72	74

These more or less divergent movements in production and trade have been due to the interaction of a number of factors among which the following were the most important: (1) the continued spread of the cotton textile industry to newer manufacturing countries and its continued growth therein which resulted in the maintenance of manufacturing activity; (2) the recognized tendency in such countries to develop weaving ahead of spinning which produced a lesser decline of exports of yarn than of piece goods during the depression; (3) the relative resistance of the textile knitting industries to the world slump which tended to maintain the demands for yarn; and (4) the probable tendency during the world economic crisis to produce coarser and heavier constructions of cotton cloth.

The contraction in the world trade in cotton manufactures during the world depression has been accompanied by an expansion in volume of cotton cloth exports from Japan, thus giving rise to the so-called problem of " Japanese Competition." In the process of Japan's development as a major exporter of cotton cloth, the trade of the United States and Italy as well as that of the United Kingdom has been seriously affected. The entrance of Japan to Latin American markets on a large scale during recent years coincided with a drastic decline of exports from the United States and Italy, together with a moderate drop from the United Kingdom. In the Philippine Islands Japan has replaced the United States as the principal supplier of cloth and Japan's exports to the United States, itself, have been rapidly mounting.

In the Far East, both the United Kingdom and Japan have had to face the virtual extinction of China as a major market for cotton piece goods but Japan has retained its market in Manchuria. Exports of piece goods from the United Kingdom to China declined from 188 million square yards in 1929 to 20 million in 1934. In the same period Japan's exports to China fell from 375 million linear yards to 56 million, but her exports to Manchuria increased from 156 million yards to 170 million.

The effect on Lancashire of the growing production of cotton goods in India has already been indicated. The share of the India Market retained by the United Kingdom had been declining in both volume and percentage during the post-war period, whereas Japan's absolute and percentage shares have been rising. Prior to the war, the United Kingdom supplied more than 95 per cent of India's imports and Japan less than 1 per cent. Even in 1928-29, the United Kingdom held 75 per cent of the import trade and Japan 18 per cent. By 1935, Japan's share had risen to 51 per cent and that of the United Kingdom had declined to 47 per cent. In absolute amounts, the United Kingdom sent 1,439 million yards of cloth to India in 1929 while Japan shipped 352 million yards. In 1935, shipments from the United Kingdom amounted to only 489 million yards and from Japan to 526 million yards. It will thus be seen that the loss of Lancashire has not been so much of a gain by Japan as it has been an actual reduction in the total volume of imports by India.

The excess capacity in the United Kingdom and the United States cotton industries, which has developed by reason of the changes described in the preceding paragraphs, has led to the advance of a number of plans to stabilize conditions in the two countries. Numerous schemes have been put forth in the United Kingdom since the war, but few of them progressed much beyond the stage of discussion. In 1936, however, after a majority of the cotton spinners had signified approval, the Cotton Spinning Industry Bill was enacted. This measure provided for the creation of a Spindles Board, which would have the function of progressively reducing the number of surplus spindles, which had been estimated as amounting to 10 to 14 millions out of a total of about 40 millions. The Board commenced operations in September, 1936, and made its first annual report in November, 1937. The following comment on the Board's report appeared in "The Economist" of November 6, 1937:—

". . . During the first year, the Board has acquired, or agreed to acquire, 3,265,000 mule equivalent spindles, involving the purchase of the plant and machinery of 48 mills at cost of £842,776. Of these, 1,900,000 mule equivalent spindles have already been scrapped and practically all the land, buildings and machinery appertaining to them have been disposed of. During the twelve months ended September 14, 1937, Lancashire's spindle capacity expressed in terms of mule equivalents, declined from 45,875,251 to 42,492,717. As the acquisition of spindles by the Board coincided with a substantial improvement in the industry, the number of unemployed spindles was reduced from 10·6 millions in September, 1936, to 3·9 millions two months ago. The proportion of the industry's capacity in full operation rose from 77 per cent during the six months ended September 14, 1936, to 90·8 per cent, during the corresponding period this year; moreover, the quantity of cotton yarn produced rose from 555·4 million pounds to 591·7 millions during this period. As the volume of surplus capacity is a function of demand for cotton yarn, which cannot be foreseen, the Board finds it impossible to say how far the process of elimination can be carried. That it is not yet at an end, however, is indicated by the fact that the Board has been entering into negotiations for the purchase of further mills since September 14th. While the problem of surplus capacity is now much less serious, the Board rightly points out that the scheme which it has to administer is only one step in the task of putting the cotton industry on a better basis."

Other measures which have been followed in an effort to improve conditions in the Lancashire area have been the adoption of short-time operations through agreement by the mills and also the adoption of agreements for the maintenance of prices. Both short-time and price agreements broke down after varying periods of co-operation by the members, but in spite of these failures new plans have followed in rapid succession. Within the past two years there has been a marked development in price fixing arrangements for various types of cotton yarns. It would appear, however, that even continued maintenance of such agreements would not improve the export position of the British industry as the restriction of production and the prevention of "under selling" would weaken still further the competitive position of British goods in foreign markets.

In the United States the movement to establish a greater equilibrium between productive capacity and demand commenced in 1926 with the formation of the Cotton Textile Institute. No great progress was made until 1932 when by a voluntary arrangement, manufacturers with practically 82 per cent of the spindles in the industry agreed not to exceed a maximum work week of 55 hours for the day shift and 50 hours for the night shift. Another recommendation of the Institute for the discontinuance of night work for women and minors under 16 was observed by 88 per cent of the industry. According to a report of the Cotton Textile Institute, these voluntary efforts were largely thwarted by the pressure of over-capacity and by the inability to secure the adherence of a minority of manufacturers to the programs.

The cotton industry code was the first adopted under the provisions of the National Industrial Recovery Act (N.R.A.). Under the code the maximum working week of 40 hours was established and machine hour operation was not to exceed 80 hours a week in two 40-hour shifts. In spite of the abandonment of the N.R.A. program, after the adverse decision of the United States Supreme Court in 1935, the majority of the cotton manufacturers in the United States have continued to adhere to the limitations established under the code.

Wool Manufacturing

Although the depression did not greatly alter the relative positions of the leading wool manufacturing countries, a number of significant changes took place during the period. The same countries which were the predominant manufacturers in 1928—the United Kingdom, the United States, France and Germany—were still predominant in 1935. Wool manufacturing, however, expanded at a very rapid rate in Japan and there were marked developments in countries which are themselves important producers of raw material, notably Australia and Argentina. The difficulties due to control and governmental policies, which have already been mentioned in connection with the cotton manufacturing industry in Germany and Italy, were also evident in wool manufacturing in these two countries.

The maintenance by the United Kingdom of her relative position as the world's leading producer of woollen and worsted manufactures, along with the United States, has been due largely to the fact that the United Kingdom had had to meet much less competition in the export markets for wool than for cotton goods. The depreciation of the pound sterling and the adoption of new measures of tariff protection in the United Kingdom stimulated the domestic market for home-produced woollens and worsteds after 1931. In contrast, the slowness with which wool manufacturing in France responded to world recovery may be attributable in part to the delayed devaluation of the franc, which, among other things, occasioned the loss in 1931 of the United Kingdom market for wool manufactures.

11. WORLD PRODUCTION AND WORLD TRADE IN WOOL TEXTILES, 1929-1936

—	1929	1932	1934	1936
Production of tops and yarn	100	92	87	89
Exports of tops	100	103	98	108
Exports of yarn	100	58	62	60
Exports of tissues	100	44	47	52

The contraction in the world trade in wool manufactures has been much greater than the contraction in the world production. The major factors leading to the curtailment of world trade in woollen and worsted goods were:

1. The reduction of imports into the United Kingdom after the depreciation of the pound sterling and the adoption of the protective tariff.
2. The loss of markets in the "newer manufacturing" countries, and
3. The gradual closing of certain markets, notably those of Germany and Italy, in their evolution from multilateral toward bilateral trade and toward greater self-sufficiency.

12. WORLD TRADE IN WOOL TISSUES, SELECTED EXPORTERS AND IMPORTERS 1928–1936
(in million pounds)

Exports to	Exports from									
	United Kingdom		France		Germany		Italy		Czechoslovakia	
	1928	1936	1928	1936	1928	1936	1928	1936	1928	1938
United Kingdom			13·1	0·3	7·1	1·3	1·2	0·1	2·5	
Germany	4·2	2·1	1·9	*(b)*					2·6	0·1
United States	7·4	4·0	1·5	0·3						
Argentina	6·2	5·8	3·2	0·5	(0·8)		1·3		(0·1)	
Canada	17·5	8·7	2·4	0·1				*(b)*		
France	1·8	1·4								
Italy	1·4	0·4			0·8	0·4			1·0	
Japan	7·0	2·0								
Austria	(0·8)	0·8			2·2	0·2		1·2	5·8	0·8
British India	3·4	2·2	1·1	(b)	1·5	0·3	6·2*(a)*	2·9 *(b)*		
EXPORTS TO ALL COUNTRIES	97·1	66·0	46·9	5·2	35·3	15·0	21·7	8·4	23·7	4·4

NOTE:—Figures in parentheses are for imports. Where no figures are given, trade was nil or not separately recorded.
(a) India and Ceylon.
(b) Less than 50,000 lbs.

SILK AND RAYON MANUFACTURING

Silk manufacturing has been fluctuating largely with the degree of world prosperity. In the period leading up to the boom of 1929 the consumption of silk tissues expanded in most countries. During the depression, despite the drastic decline in prices, the demand for silk fabrics fell off. The curtailment of silk manufacturing was due not only to the loss of purchasing power but also to the growing competition of the newer rayon products. On the other hand, the increasing popularity of silk hosiery resulted in the maintenance of the demand for this silk product during the depression. Production of silk hosiery has advanced in Canada and the United States and probably in other countries as well during recent years. While the fortunes of the silk manufacturing industry have thus tended to fluctuate cyclically it would nevertheless appear, from the figures of imports of raw silk used for processing by the importing countries and the indices of manufacturing activity, that the silk textile industry is undergoing expansion in a number of countries, of which the United Kingdom, Japan, and Canada are the most important. The growth of domestic manufactures in these countries has placed serious and more or less permanent strains upon such silk-manufacturing countries as France, Italy, and Switzerland, which have been the major silk-exporting countries.

Canadian imports of silk piece-goods from France and Switzerland dropped from approximately 4½ million yards in the fiscal year 1929-30 to less than half a million yards in the fiscal year 1932-33 and have not since shown any marked recovery.

Rayon manufacturing, on the other hand, is a new industry in all countries and is developing with all the vigour of youth. The annual production has been rising steadily since 1925 with only a slight pause in the earlier years of the depression. The tendency has been towards the establishment of manufacturing plants in any country whose market is sufficiently large to enable efficient production to be carried on, so that the international trade in rayon products has not kept pace with the phenomenal advance in production.

CHAPTER IV

THE CANADIAN CUSTOMS TARIFF AND ITS ADMINISTRATION IN RECENT YEARS

Since 1907 the Canadian tariff has been a three column tariff, the lowest rates being British Preferential, then the Intermediate Tariff used as a basis for negotiation with foreign countries, and finally the General Tariff. Details of the rates of duty, under which the various branches of the industry developed, are given in Chapter II. Their variety is such that it is difficult to give a general picture of their height at any period, but some indication is given by the rates on the main import items. In summary, one may say that in 1907 the British Preferential rates ranged from 15 to 25 per cent depending on the degree of manufacture, e.g., cotton fabrics, grey, 15 per cent; bleached, 17½ per cent; coloured, 25 per cent. There were, of course, many items coming in at lower rates, some even free of duty, and some important items at higher rates, e.g., woollen and worsted fabrics, 30 per cent. But, out of forty items concerned in this inquiry 30 fall within the range mentioned, and 30 per cent was the highest rate involved under the British Preferential Tariff. The Intermediate Tariff was higher on the average by an additional 5 per cent of the value of the goods; in most cases, the differential was exactly 5 per cent, and almost all other cases were equally divided between 2½ per cent and 7½ per cent. The General Tariff was usually higher than the Intermediate by 2½ per cent of the value of the goods, 5 per cent was the next most usual differential. Again one may take cotton fabrics as a typical example:—

RATES OF DUTY ON COTTON FABRICS, 1907

—	British Preferential	Intermediate	General
	%	%	%
Grey	15	22½	25
Bleached	17½	22½	25
Coloured	25	30	32½

The range of duties established in 1907 was subjected to some reduction in the twenties. In 1922, there was a fairly general reduction of the British Preferential rates on textiles by 2½ per cent of the value of the goods, e.g. cotton fabrics, grey, reduced from 15 per cent to 12½ per cent; bleached, reduced from 17½ per cent to 15 per cent; coloured, reduced from 25 per cent to 22½ per cent. Similarly, woollen flannels were reduced from 22½ per cent to 20 per cent, and woollen and worsted fabrics reduced from 30 per cent to 27½ per cent. In 1923, there was a further slight reduction through the operation of a regulation allowing a 10 per cent discount from duties of more than 15 per cent, when goods were conveyed without transhipment from a port of a country entitled to the British Preferential Tariff to a sea or river port in Canada. As most imports from the United Kingdom are made on direct shipment, the effective duties, when more than 15 per cent, are the tariff rates less 10 per cent. This point should be kept in mind when considering the various British Preferential Tariff rates which are cited in the following paragraphs and in other sections of this report.

In 1929, a number of changes were made in both rates and classifications of textile items following inquiries conducted by the Advisory Board on Tariff and Taxation. The British Preferential rates on several items were reduced by a further 2½ per cent of the value of the goods, and some of the Intermediate and General Tariff rates were reduced. In addition to these revisions, the number of countries entitled to treaty rates had increased since 1907.

The Intermediate Tariff applied to the products of countries with which Canada had established reciprocal most-favoured-nation treatment and to some countries under special trade treaties. These special treaties provided in some cases for discounts on certain items under the Intermediate Tariff or for special rates. Such rates or discounts, by virtue of the most-favoured-nation agreements, were automatically extended to these most favoured nations. The Canada-France Agreement of 1923, for example, provided for reduction in the Intermediate rates of duty on a considerable number of textile items. Under the terms of this agreement the rate for woollen and worsted fabrics was 15 per cent off the Intermediate rate of 35 per cent, while a rate of 25 per cent was provided for knitted goods, n.o.p., instead of the Intermediate rate of 30 per cent. Automatically, these reductions applied to all nations in the most-favoured-nation class.

The revisions in tariff rates and the agreements under trade treaties in the post-war period resulted in a general lowering of duties on textile imports. This trend may be illustrated by reference to the British Preferential rates on several important cotton and wool items.

Year	Cotton				Woollen and Worsted Fabrics, n.o.p.
	Single Yarns Coarser Than 40's	Grey Fabrics	Coloured Fabrics	Cotton Blankets	
	%	%	%	%	%
1907	17½	15	25	25	30
1922	15	12½	22½	22½	27½
1928	10–12½	12½	20	15	27½

With the onset of depression, the tariff policy of Canada was drastically changed. The *ad valorem* rates on a large number of textile items were increased in September, 1930, and specific duties imposed. The following table gives some indication of the drastic nature of the new rates. The degree by which the protection provided might be further increased by administrative action will be discussed later.

—	Rates of Duty Ruling in 1929			Rates of Duty September, 1930		
	B.P.	Int.	Gen.	B.P.	Int.	Gen.
Artificial Silk—						
Yarn, single strand	12½%	17½%	20 %	25%	30%	35%
				*Duty to be not less than 28 cts. per lb.		
Yarn, ply	17½%	22½%	25 %	25%	30%	35%
				*Duty to be not less than 28 cts. per lb.		
Woven Fabric—						
Wholly art. silk	17½%	32½%	35 %	27½%	40%	45%
and per lb.	......	......	......	30 cts.	40 cts.	40 cts.
In part art. silk	20 %	30 %	35 %	27½%	40%	45%
and per lb.	......	......	......	30 cts.	40 cts.	40 cts.
Cotton—						
Yarn, single—						
20 hanks or less per lb.	10 %	15 %	20 %			
20-40 hanks per lb.	12½%	15 %	22½%	12½%	15%	22½%
41 hanks or more per lb.	Free	15 %	15 %	3 cts.	3½ cts.	4 cts.
and per lb.	......	......	......			
Yarn, ply	15 %	22½%	25 %	15%	22½%	25%
and per lb.	......	......	......	3 cts.	3½ cts.	4 cts.
Sewing thread	15 %	22½%	25 %	15%	22½%	25%
and per lb.	......	......	......	3 cts.	3½ cts.	4 cts.
Cotton Fabrics—						
Grey	12½%	20 %	22½%	17½%	20%	25%
and per lb.	......	......	......	3 cts.	3½ cts.	4 cts.
Bleached	15 %	22½%	25 %	20%	22½%	27½%
and per lb.	......	......	......	3 cts.	3½ cts.	4 cts.
Coloured	20 %	25 %	27½%	22½%	27½%	32½%
and per lb.	......	......	......	3 cts.	3½ cts.	4 cts.
Woollen and Worsted—						
Yarn for weavers	Free	10 %	12½%	10%	17½%	20%
and per lb.	......	......	......	10 cts.	15 cts.	17½ cts.
Fabrics—						
5 oz. or less	22½%	30 %	35 %	27½%	35%	40%
more than 5 oz.	27½%	35 %	35 %			
and per lb.	......	......	......	25 cts.	30 cts.	35 cts.
Blankets—						
wholly of wool	22½%	30 %	35 %	22½%	30%	35%
Cotton, etc.	15 %	22½%	27½%	20 cts.	25 cts.	30 cts.
and per lb.	......	......	......			
Hosiery—						
Cotton stockings	20 %	27½%	30 %			
Woollen stockings—						
valued at more than $1.50 per lb.	27½%	32½%	35 %			
valued at 91 cts. to $1.50 per lb.	25 %	32½%	35 %			
valued at 90 cts. or less per lb.	20 %	27½%	30 %	30%	32½%	35%
Silk and art. silk stockings	25 %	32½%	35 %	$1·00	$1·35	$1·50
Socks and stockings of all kinds	......	......	......			
and per doz. pairs	......	......	......			
Knit Goods—						
Garments, underwear, etc.—						
valued at more than 90 cts. per lb.	20 %	30 %	35 %			
valued at 90 cts. per lb. or less	15 %	30 %	35 %			
Knitted Fabrics—						
Cotton or Linen	20 %	27½%	30 %	25%	35%	45%†
Woollen or worsted—						
5 oz. or less	22½%	30 %	35 %			
over 5 oz.	27½%	35 %	35 %			
Silk	20 %	32½%	35 %	......	......	......
Artificial Silk	20 %	30 %	35 %			
Real Silk—						
Broad Silk	17½%	32½%	35 %	27½%	40%	45%
and per yard	......	......	......	......	10 cts.‡	10 cts.‡

* This minimum specific duty was in fact the effective duty.

(†) Specific duties of 25 cts. and 30 cts. per lb. were added under the Intermediate and General Tariffs respectively, in 1933.

(‡) Added in 1931.

The above table is not presented as a complete account of the textile tariff rates, but is intended to give some indication of the sweeping upward revision in rates. A fuller account of the tariff history of textile items will be found in the appendix. Comparison of tariff schedules before and after September 1930 is difficult because of the introduction into the new schedules of specific rates and minimum duties; it is, therefore, necessary to give some estimate of the *ad valorem* equivalent of the compound rates in say, 1931. For this purpose, some extracts from the exhibits prepared by Mr. Hooper, Customs reviewing appraiser, are presented below:—

EXHIBIT 858—COTTON WARP YARN PER 100 LB.

—	U.K. Selling Price	Ad Valorem Duty	Specific Duty
	£ s. d.	$	$
June 3, 1930	6. 5 0	4·56	none
September 1, 1930	5. 8 4	3·95	none
September 29, 1930	5. 0 0	3·28	2·70*
January 26, 1931	4. 9 7	2·94	2·70*

* 3 cts. per lb. less 10%.

EXHIBIT 860—COTTON FABRICS GREY GOODS PER 138 3-4 YDS—4·25 YDS PER LB.

—	U.K. Selling Price	Ad Valorem Duty	Specific Duty
	£ s. d.	$	$
June 3, 1930	3 4 0	1·95	none
September 1, 1930	2 11 0	1·55	none
September 29, 1930	2 11 0	1·95	88 cts.
January 26, 1931	2 8 0	1·84	88 cts.

EXHIBIT 861—COTTON FABRICS GREY GOODS PER 138 3-4 YDS—2·6 YDS PER LB.

—	U.K. Selling Price	Ad Valorem Duty	Specific Duty
	£ s. d.	$	$
June 3, 1930	3 6 0	2·01	none
September 1, 1930	3 0 0	1·83	none
September 29, 1930	3 0 0	2·30	1·20
January 26, 1931	2 9 0	1·88	1·20

EXHIBIT 820—COTTON WARP YARN PER 100 LB. NO. 10'S SINGLE IMPORTED FROM THE U.S.A.

—	U.S. Selling Price	Ad Valorem Duty	Specific Duty
	$	$	$
June 4, 1930	24·50	4·90	none
October 17, 1930	19·50	4·39	4·00
June 1, 1931	16·00	3·60	4·00

EXHIBIT 829—GREY GOODS PER 1,000 YARDS—IMPORTED FROM U.S.A.—SHEETING 40", 48 x 48—2·85 YDS PER LB.

—	U.S. Selling Price	Ad Valorem Duty	Specific Duty
	$	$	$
June 6, 1930	88·75	19·97	none
September 10, 1930	76·25	17·16	none
October, 1930	77·50	19·38	14·03
February 13, 1931	62·50	15·63	14·03

EXHIBIT 831—GREY GOODS PER 1,000 YDS—IMPORTED FROM U.S.A.—PRINT CLOTH 44", 48 x 48—6·40 YDS. PER LB.

—	U.S. Selling Price	Ad Valorem Duty	Specific Duty
	$	$	$
June 6, 1930	52·50	11·81	none
September 10, 1930	45·00	10·13	none
October 7, 1930	47·50	11·88	6·25
February 13, 1931	43·75	10·94	6·25

EXHIBIT 839—COTTON FABRICS PER 1,000 YARDS—IMPORTED FROM U.S.A.—VAT PRINTS, DARK COLOURS, 36", 37", 80 x 80—4·00 YARDS PER POUND

—	U.S. Selling Price	Ad Valorem Duty	Specific Duty
	$	$	$
July 30, 1930	135·00	36·20	none
December 16, 1930	135·00	43·88	10·00
February 16, 1931	132·50	43·06	10·00

The report of the Tariff Board in Reference 83 (Cotton Yarns, Cotton Fabrics and Artificial Silk Fabrics) contains the following mention of the effect of the compound duties:—

"In order that the weight of the compound ad valorem and specific duties may be clear, the average duty collected under the British Preferential Tariff on importations as reported in the Trade of Canada has been calculated for Tariff Items 522 and 522c, the two cotton yarn items with compound rates."

AVERAGE AD VALOREM EQUIVALENT OF COMPOUND DUTIES ON COTTON YARNS

Fiscal Years	Item 522 Cotton Yarn, Singles n.o.p.	Item 522c Cotton Yarn, n.o.p.
	per cent	per cent
1929	11·5	15·0
1930	11·8	15·0
1931	12·3	16·4
1932	15·8	19·6
1933	17·4	19·2
1934	16·1	18·6
1935	15·8	19·2

Again on page 44, of the same reference the following comment is made:—

"In order that the weight of the compound ad valorem and specific duties on the various cotton fabric items may be clear, the average ad valorem effect of the compound duties on the various items has been calculated from importations under the British Preferential Tariff as reported in the Trade of Canada. It should be remembered that any fluctuations in exchange are not reflected in these figures, as all the invoices are converted at par of exchange for duty purposes and all Customs duties are calculated on such invoice values. The import excise tax has not been included in any year."

AVERAGE AD VALOREM EQUIVALENT OF COMPOUND DUTIES ON COTTON FABRICS
Based on Invoice Values* and Duty Collected in Each Year as Reported in Trade of Canada

Fiscal Year	Item 523 Grey Cotton	Item 523a Bleached Cotton	Printed	Item 523b Piece Dyed	Yarn Dyed
1929	12·5	15·0	18·0	18·0	18·0
1930	12·5	15·0	18·0	18·0	18·0
1931	14·4	16·7	20·0	19·8	18·7
1932	22·9	22·8	24·5	24·8	23·9
1933	21·5	22·3	23·8	24·3	24·1
1934	21·4	21·7	23·3	23·7	23·4
1935	21·6	21·6	23·4	23·7	23·6

* The values shown in Trade of Canada for imports from the United Kingdom are the invoice values converted into Canadian currency at the par of exchange. During the period when the pound sterling was depreciated in terms of the Canadian dollar the values shown in Trade of Canada would be higher than the actual values and the duties as a percentage of invoice value would appear lower than if calculated on the actual value of the imports.

The problem of valuation of imports is involved whenever *ad valorem* rates of duty apply on imports, as it is first necessary to establish the dutiable value of an import before the duty can be calculated. The real degree of protection resulting from any given percentage rate of duty may vary considerably according to the principles of valuation employed. The period from **1930** to **1935** was characterized by drastic use of special valuations for purposes of increasing protection. The changes in the law are briefly explained in the following paragraphs, after which the administration of the law is illustrated.

Valuation for Duty

The main provisions of the Customs Act relating to valuation for duty are contained in sections 35 to 45 and section 55. Section 35 contains the basic principle that the value for duty shall be the fair market value when sold for home consumption in the principal markets of the exporting country at the time of export. This section also provides for the valuation of goods from foreign countries whose currency is substantially depreciated by the use of values of similar goods in Great Britain, or, in the event of the goods not being made in Great Britain, in any European country the currency of which is not substantially depreciated (sec. 35, 2-3). These subsections, however, have seldom been invoked in recent years although in the immediate post-war period this method was employed.

Prior to September, 1930, the fair market value was further defined by section 36 as follows:—

"Such market value shall be the fair market value of such goods, in the usual and ordinary commercial acceptation of the term, and as sold in the ordinary course of trade: Provided that a discount for cash, for duty purposes, shall not exceed two and one-half per cent, and shall not be allowed unless it has been actually allowed and deducted by the exporter on the invoice to the importer."

On September 17, 1930, this section 36 was repealed and a new section, containing two subsections, was enacted:—

"(1) Such market value shall be the fair market value of such goods in the usual and ordinary commercial acceptation of the term, and as sold in the ordinary course of trade, such value in no case to be lower than the selling price thereof to jobbers or wholesalers generally at the time and place of shipment direct to Canada.

"(2) Provided that the value for duty of new or unused goods shall in no case be less than the actual cost of production of similar goods at date of shipment direct to Canada, plus a reasonable advance for selling cost and profit, and the Minister shall be the sole judge of what shall constitute a reasonable advance in the circumstances and his decision thereon shall be final."

This new subsection (2) made the Minister the sole judge of what constitutes "a reasonable advance for selling cost and profit." This was a reversion to the law of 1921, which contained a similar provision, repealed in 1922.

In July, 1934, subsection 1 of section 36 was repealed. This repeal left the fair market value as defined in section 35 with the proviso that it should not be less than the cost of production as defined in the unrepealed part of section 36.

The "reasonable advance for selling cost or profit" in section 36 was somewhat clarified and restricted by the addition of the following words to the section in June, 1936:—

" . . . such advance not to be greater than that which in the ordinary course of business, under normal conditions of trade is adequate in the case of goods similar to the particular goods under consideration by manufacturers or producers of goods of the same class or kind in the country of export when sold for home consumption."

This section requires a word of observation on my part. As enacted in 1930 it provided a minimum limitation in the value of goods for duty purposes composed of two factors: (1) such value was in no case to be less than the "actual cost of production" of similar goods, and (2) to this "actual cost of production" was to be added "a reasonable advance for selling cost and profit" to be determined finally by the Minister. The amendment of 1936 guides and limits the exercise of the Minister's discretion in fixing the "reasonable advance for selling cost and profit"; but it still leaves the actual cost of production as if it was something capable of accurate determination. The cost of production in question is such cost in the country of origin of the goods. The officials of the Customs service are no doubt faced with serious difficulties in determining the cost of production for individual firms in a foreign country. The evidence submitted to me on this subject of the cost of the production of any particular article, for example in Canada or in the United States, shows that such cost can only be approximated, and then only through the use of certain accounting methods and the setting up of certain standards, sometimes of doubtful accuracy and application. This evidence also shows that costs of production may vary from mill to mill because of differences in operations and in methods of cost accounting. I shall, of course, have something more to say at a later period regarding the costs of production in Canada. My intention at this time is to call attention to two points which were stressed before me on the argument which followed the taking of the evidence. These points are: (1) the difficulty of application of the "actual cost of production" formula which I have just described and (2) the suggestion, supported by a reference to Exhibits 827, 828 and 829, that the machinery for arriving at the foreign cost of production may be used, on occasion, unduly to enhance the value of imported goods for duty purposes, for instance, by using one rule of costs for goods produced in a given country, regardless of where they might be produced in that country or by whom they might be produced. However, I was assured, at the time of the argument, that the policy of fixing general valuations of too broad a character, has since been discontinued.

All that remains, therefore, to be noted now on this subject is that the "actual cost of production of similar goods at date of shipment," is by its nature of extreme difficulty, and that those whose duty it is to apply the test must keep themselves within its limitations which are in point of subject-matter, the *actual* cost of production of *similar* goods, and in point of time, this cost on the date of the shipment of the goods direct to Canada.

FIXED VALUATIONS

Section 41 of the Customs Act provides for the valuation of goods when the fair market value is difficult to determine, e.g. when the goods are not sold for use in the country of production, when the goods are only leased, or where they are imported under any unusual conditions. This section is of limited application and no objection to its provisions, or to the manner of its application, was taken before me.

Section 43 of the Customs Act provided, prior to September, 1930, for special valuation of " natural products of a class or kind produced in Canada " when it appeared that such goods were being imported into Canada under such conditions as would prejudicially or injuriously affect the interests of Canadian producers or manufacturers. Under such circumstances the Governor in Council could authorize the Minister of National Revenue to fix the value for duty and the value so fixed was deemed to be the fair market value.

This section was amended in September, 1930, to make it applicable to goods of any kind instead of to natural products only. As in the case of appraisals made under section 36 which are in excess of the home market prices, the fixed valuations under section 43 lead to the application of the dumping provisions of the Customs Tariff Act (that is, when the market value so fixed is higher than the exporter's price).

An amendment in November, 1932, limited the provisions of this section to goods not entitled to entry under the British Preferential Tariff or any lower tariff. The Department of National Revenue ruled that the amendment did not alter the valuations that had previously been fixed on goods entitled to entry under the British Preferential Tariff. This ruling was contested before the Tariff Board. The Tariff Board ruled that the Department was in error in maintaining fixed valuations on British goods after the amendment to the statute. The power of the Tariff Board to make this ruling was referred to the Supreme Court of Canada. The Supreme Court decided that the Tariff Board had no jurisdiction in the matter. Thereupon an action was brought by an importer in the Exchequer Court to recover duties overpaid by reason of these fixed valuations having been maintained. The Exchequer Court decided in favour of the importer in November 1935, and refunds have since been paid.

In June 1936, the section was further amended by adding subsection 3, which reads as follows:—

"(3) In the case of any value for duty established under the provisions of this section after the first day of January, 1936, any interested person may apply to the Tariff Board by way of appeal therefrom. The Tariff Board shall thereupon conduct a public inquiry and make its finding as to whether, to what extent, and for what period such value is required to prevent the importation of goods into Canada from prejudicially or injuriously affecting the interests of Canadian producers or manufacturers. If no fixed value is found by the Tariff Board to be required, or if a lower value is found to be appropriate, the finding of the Tariff Board will become at once effective. If appeal is made to the Tariff Board such value authorized by the Minister shall in default of any finding by the Tariff Board in the meantime cease to have force and effect upon the expiration of three months from the date of any such application to the Tariff Board."

This amendment gives a valuable check to the indiscriminate use of fixed valuations. A forecast of its enactment was contained in the agreement between Canada and Japan negotiated in the autumn of 1935 and referred to in the first chapter of this report. It was also part of the agreement made between Canada and the United States shortly before the Canada-Japan agreement.

Dumping and Currency Valuation

I think it will help to clarify the subject to be treated in this section if I begin by a very brief review of the history of dumping, showing the various forms dumping has assumed from time to time and the different means taken to nullify its effect upon importing countries. To achieve this end, I think I cannot do better than to cite, as I proceed, certain extracts from an article on the subject written by Mr. Jacob Viner for the "Encyclopaedia of the Social Sciences." The author says:—

"In its original meaning and as now used by careful writers in English and in many other languages in which the term has become fairly well established it signifies sale for export at prices lower than those charged to domestic buyers."

Certain examples of dumping in this original meaning of the term, which took place at earlier periods in the history of international trade relations are then given in the article, as for instance:—

"An Elizabethan writer charged foreigners with selling paper at a loss in England in order to crush a new domestic policy . . . . . The first American fine china pottery, set up before the revolution, failed, it was claimed, because of predatory English dumping."

It will next be interesting to cite the author's views on the beneficial or harmful effects of dumping:—

"To the importing country cheapness of imports is an advantage, unless the cheapness is so temporary that it results in greater injury to domestic industry than benefit to consumers. Importing countries have legitimate ground for taking protective measures against dumping only because dumping is usually intermittent or short run and can never be depended upon to continue indefinitely. Even when the importing country has no competing industry it may be injured by temporary dumping if this results in the establishment by the dumper of monopoly control over its market."

Prior to the year 1904, the only measure provided by the Parliament of Canada to meet the importation of goods dumped into this country took the form of a valuation for duty purposes on the basis of the actual market price of the goods in the country of origin, instead of the basis of the dumping price. A section in the Customs Act of 1867 apparently intended, among other things, to prevent or to lessen the effect of dumping, was amended in 1883 to read as it does at the present day in section 35 (1) of the Customs Act, which is as follows:—

"35. Whenever any duty ad valorem is imposed on any goods imported into Canada, the value for duty shall be the fair market value thereof, when sold for home consumption in the principal markets of the country whence and at the time when the same were exported directly to Canada."

In 1904, Parliament, without repealing or amending the aforesaid 35 (1), provided an additional impost against dumping by enacting as follows in the Customs Tariff Act:—

"19 (1) Whenever it appears to the satisfaction of the Minister of Customs or of any officer of customs authorized to collect customs duties, that the export price or the actual selling price to the importer in Canada of any imported dutiable article of a class or kind made or produced in Canada, is less than the fair market value thereof, as determined according to the basis of value for duty provided in the Customs Act in respect of imported goods subject to an ad valorem duty, such article shall, in addition to the duty otherwise established, be subject to a special duty of customs equal to the difference between such fair market value and such selling price; provided, however, that the special customs duty on any article shall not exceed one-half of the customs duty otherwise established in respect of the article, except in regard to the articles mentioned in items 224, 226, 228 and 231 in Schedule A to the Customs Tariff, 1897, the special duty of customs on which shall not exceed fifteen per cent ad valorem, nor more than the difference between the selling price and the fair market value of the article."

Referring to this last enactment, Mr. Viner says:—

"Anti-dumping legislation made its appearance in response to the clamor raised against the allegedly injurious effects of American and German dumping. In 1904 Canada enacted the first anti-dumping law specifically providing for the imposition of additional duties on imports sold at dumping prices."

The author then points out that different countries later on followed Canada's example. He cites the Union of South Africa in 1914, and the United States, Great Britain, Australia, New Zealand and Newfoundland in 1921.

The effect of the two above cited enactments was to set up two penalties against goods dumped upon the Canadian market: (1) their assessment for duty upon the higher home market price, instead of the lower dumping price, and (2) the levying upon them of a special duty equal to the difference between these two prices, with the 50 per cent limitation set out in the 1904 Statute.

No change in principle was made in reference to dumping until the period beginning after the Great War, when a new form of dumping came into being known as currency dumping. On this subject Mr. Viner says:—

"During the post-war period the term exchange dumping duty has been applied to exports from certain European countries with rapidly depreciating currencies, although such exports have not necessarily involved lower prices than those charged to domestic buyers."

The first legislative provision in Canada against currency dumping was enacted in 1921. It was aimed at two things: (1) dumping from countries having depreciated currencies, and (2) the valuation of imports from countries having appreciated currencies. It is as follows:—

"Section fifty-nine of the said Customs Act is amended by adding thereto the following subsection:—

'(6) Notwithstanding any of the provisions of this section, in computing the value for duty of the currency of an invoice, no reduction shall be allowed in excess of fifty per cent of the value of the standard or proclaimed currency of the country from whence the goods are invoiced to Canada, irrespective of the rate of exchange existing between such country and Canada on date of the shipment of the goods; and in respect of goods shipped to Canada from a country where the rate of exchange is adverse to Canada, the value for duty of the currency of the invoice shall be computed at the rate of exchange existing between such country and Canada at the date of the shipment of the goods'."

Since 1921 there has been a considerable evolution in the legislation of this country designed to deal with currency dumping. It will suffice for present purposes to refer to the statutory provisions now in force. These are: The Customs Act, section 35, (2), (3) and (4); section 55, (3) and (4); The Customs Tariff Act, section 6.

These three statutory provisions are as follows:—

"35-2. In the case of importations of goods the manufacture or produce of a foreign country, the currency of which is substantially depreciated, the value for duty shall not be less than the value that would be placed on similar goods manufactured or produced in Great Britain and imported from that country, if such similar goods are made or produced there.

3. If similar goods are not made or produced in Great Britain, the value for duty shall not be less than the value of similar goods made or produced in any European country the currency of which is not substantially depreciated.

4. The Minister may determine the value of such goods, and the value so determined shall, until otherwise provided, be the value upon which the duty on such goods shall be computed and levied under regulations prescribed by the Minister."

"55-3. Whenever the value of a currency has not been proclaimed, or whenever there is no fixed standard value, or whenever from any cause the value of a currency has become depreciated or appreciated, there shall be attached to the invoice of the goods imported the certificate of some Consul or Canadian Trade Commissioner, resident in such place or country, or the certificate of a bank showing the extent of such depreciation or appreciation, or the true value at the time of the exportation of the goods of the currency in which such invoice is made out as compared with the standard dollar of Canada: Provided that the collector may compute the value for duty at the rate of exchange certified by the bank through which the same is drawn as current at the time and place when and whence the goods were exported to Canada.

4. When the currency value is determined, as hereinbefore provided, at the time of entry, either by a Consul's or Canadian Trade Commissioner's certificate or by the certificate of a bank, such rate or value shall be final and not open to any readjustment by reason of the subsequent production of any certificate not corresponding in rate or value with that adopted."

"Section 6. (1) In the case of articles exported to Canada of a class or kind made or produced in Canada, if the export or actual selling price to an importer in Canada is less than the fair market value of the same article when sold for home consumption in the usual and ordinary course in the country whence exported to Canada at the time of its exportation to Canada, or is less than the fair market value or value for duty thereof as determined under the provisions of section thirty-six of the *Customs Act* or is less than the value for duty thereof as determined by the Minister under the provisions of paragraphs (*a*) and (*e*) of section forty-one of the *Customs Act*, or is less than the fair market value thereof as fixed under the provisions of section forty-three of the *Customs Act*, there shall, in addition to the duties otherwise established, be levied, collected and paid on such article, on its importation into Canada, a special or dumping duty, equal to the difference between the said selling price of the article for export and the said fair market value thereof or value for duty thereof; and such special or dumping duty shall be levied, collected and paid on such article although it is not otherwise dutiable.

"Provided that when it is established that any articles though of a class or kind made or produced in Canada are not offered for sale to the ordinary agencies of wholesale or retail distribution or are not offered to all purchasers on equal terms under like conditions, having regard to the custom and usage of trade, such articles may be exempted from special or dumping duty.

"Provided that the said special duty shall not exceed fifty per centum *ad valorum* in any case, and the following goods shall be exempt from such special duty, namely:—

"Goods of a class subject to duty under the *Excise Act*.

"(2) Excise duties or excise taxes shall be disregarded in estimating the market value of goods for the purposes of special duty when the goods are entitled to entry under the British Preferential Tariff, Intermediate Tariff, or any tariff more favourable than the General Tariff.

"(2A) The Governor in Council, whenever it is deemed expedient to do so, may order that import, excise or other duties and taxes, in whole or in part, shall be disregarded in estimating the market value for the purpose of special duty of goods of any kind imported into Canada from any specified country.

"(3) Customs duties of the United Kingdom shall be disregarded in estimating the market value of wines for the purposes of special duty when the same are entitled to entry under the Intermediate Tariff or any tariff more favourable than the General Tariff and are bottled in bond in the United Kingdom and imported direct therefrom.

"(4) 'Export price' or 'selling price' in this section shall be held to mean and include the exporter's price for the goods, exclusive of all charges thereon after their shipment from the place whence exported directly to Canada.

"(5) If at any time it appears to the satisfaction of the Minister that the payment of the special duty by this section provided for is being evaded by the shipment of goods on consignment without sale prior to such shipment, the Minister may in any case or class of cases authorize such action as is deemed necessary to collect on such goods or any of them the same special duty as if the goods had been sold to an importer in Canada prior to their shipment to Canada.

"(6) If at any time it appears to the satisfaction of the Minister that any person owning or controlling or interested in a business in Canada and also in any other country, or any person carrying on a business in any other country and owning or controlling or interested in a business operating in Canada, and by reason thereof is enabled to import goods for further manufacture or assembling or for resale, and while complying with the legal requirements on importation disposes of such imported goods, whether in the form as imported or as further processed, assembled or manufactured, at prices below the duty paid value thereof as entered at Customs plus or including all charges upon the goods after shipment from the place whence exported directly to Canada, including sales, distribution and advertising costs, and plus, if any, the cost of processing, assembling or further manufacturing in Canada, the Minister may declare that goods of such class or kind were and are on importation subject to an additional special or dumping duty not exceeding fifty per cent and authorize such action as is deemed necessary for the collection thereof.

"(7) If the full amount of any special duty of Customs as herein provided has not been paid on goods imported, the Customs entry thereof shall be amended and the deficiency paid upon the demand of the Collector.

"(8) The Minister may make such regulations as are deemed necessary for carrying out the provisions of this section and for its enforcement.

"(9) (*a*) Notwithstanding the provisions of any other law, the Governor in Council may, from time to time and as occasion requires, order and direct, subject to such exceptions as may be made, what shall be the rate of exchange fixed for any currency in computing the value for duty of goods imported into Canada from any place or country the currency of which is depreciated, and in case a sum in Canadian currency less than the invoice value of the goods in the currency of the place or country of export, computed at the rate of exchange so ordered, be paid for the goods, the actual selling price of the goods to the importer shall be regarded as less than the fair market value of the goods when sold for home consumption, and the provisions of this section shall apply and special or dumping duty shall apply equal to the difference between the value of the invoice computed at the current rate of exchange or at the average current rate from time to time fixed by order of the Governor in Council, and the value of such invoice, computed at the rate of exchange for duty so ordered as aforesaid, or may be less than such difference as the Governor in Council may from time to time order and direct; and the Governor in Council may order and direct that in all cases of sales or consignments of goods imported into Canada, where the importer owns, controls or is interested in the business of the exporter, or the exporter owns, controls or is interested in the business of the importer, or the importer and exporter operate under a controlling or holding company, notwithstanding the expressed terms of the sale or consignment, the transaction shall be regarded as a sale and the actual selling price to the purchaser in Canada shall be taken to be the value of the goods in the currency of the place or country of export converted into Canadian currency at the current rate of exchange, or at the average current rate from time to time fixed by order of the Governor in Council, and shall be regarded as less than the fair market value of the goods when sold for home consumption, and the provisions of this section shall apply and special or dumping duty shall be deemed to apply equal to the difference between the value of the invoice computed at the current rate of exchange or at the average current rate from time to time fixed by order of the Governor in Council, and the value of such invoice computed at the rate of exchange for duty so ordered as aforesaid, or may be less than such difference as the Governor in Council may from time to time order and direct.

(*b*) Any Order in Council made hereunder may be varied, extended or revoked at any time by the Governor in Council.

(*c*) This subsection shall be deemed to have had effect from and after the first day of September, 1931. 1931, c. 30, s. 6; 1933, c. 37, s. 1.

"(10) For the purposes of this Act articles shall not be deemed to be of a class or kind made or produced in Canada unless so made or produced in substantial quantities; and the Governor in Council may by Order in Council provide that such quantities, to be substantial, shall be sufficient to supply a certain percentage of the normal Canadian consumption and may in such Order fix such percentage.

"(11) (*a*) Notwithstanding the provisions of any other law, the Governor in Council may, from time to time and as occasion requires, and without having regard to the requirements of section fifty-five of the Customs Act, order and direct, subject to such exceptions as may be made, what shall be the rate of exchange fixed for any currency in computing the value for duty of goods imported into Canada from any place or country, the currency of which is appreciated in terms of the Canadian dollar.

"(*b*) In cases where, under the power granted by this subsection, the Governor in Council shall have fixed the rate of exchange for any currency in computing the value for duty of goods imported into Canada, special or dumping duty shall not apply when the export or actual selling price is equal to or greater than the value for duty so computed and where the same is less than the value for duty so computed, special or dumping applicable shall not be greater than the difference between the said export or actual selling price and the value for duty so computed."

Section 6 of the Customs Tariff Act, prior to September, 1930, provided for a dumping duty, on goods of a class or kind made in Canada, when the selling price to an importer in Canada was less than the fair market value of similar articles when sold for home consumption in the country of export. The dumping duty was to be equal to the difference between the selling price to the importer in Canada and the home market value, but this special duty was not to exceed

15 per cent ad valorem and was not to apply to goods on which other duties equalled 50 per cent. This section was repealed in 1930 and a new section adopted. The enactment in 1930 provided that a special duty was to be imposed not only when the selling price to an importer in Canada was less than the home market value but also if it were less than the fair market value as determined under the provisions of sections 36, 37, 41, ss. (*a*) and (*e*) or 43 of the Customs Act. The special duty was not to exceed 50 per cent *ad valorem*. The section as enacted in 1930 with amendment relating to currency duties in 1933 was substantially the same as the present section except that now, by an amendment passed in 1936, goods of a class or kind made in Canada are further defined.

The complaint made against the provisions of section 6, ss. (9*a*) of the Customs Tariff Act is that the power given to the Governor in Council to fix rates of exchange is one which might be used to provide an undue measure of protection to Canadian industries, especially when the high exchange parity is maintained after costs of production in the exporting country have risen, in proportion to, or nearly to, the extent of the depreciation in the national currency. This was one of the subjects of complaint made in the case of Japan, where, as has been shown, a proclaimed rate of 49·85 cents (the gold parity of the yen) was maintained from December, 1931, to August, 1935.

In general the objection raised to dumping duties is that they tend to increase the spread to the consumer between free trade prices and home, tariff-protected, prices.

On the other hand, Mr. Heward, counsel for the Dominion Textile Company called my attention to what, in his opinion, was an oversight in the wording of section 6 (1) of the Customs Tariff Act as it now reads. As amended in September, 1930, this section provides that the special or dumping duty referred to in the section shall be levied when the export price of the goods is less than their fair market value when determined, among other ways, by the application of sections 36 or 41, ss. (*a*) and (*e*), or 43 of the Customs Act. Mr. Heward's submission is that section 6 (1) of the Customs Tariff Act should be amended so as to accord the same treatment to valuations made under section 35 (2) and (3) of that Act. He has drafted and handed to me his proposed amendment in these words:—

> " . . . that subsection 1 of Section 6 of The Customs Tariff Act (R.S.C., 1927, Ch. 44, as amended) be amended by inserting after the words "Section Forty-Three of the Customs Act" in the first paragraph of subsection 1 the words—
>
> or is less than the value for duty provided for by subsection 2 or by subsection 3 of section 35 of the Customs Act."

The evidence shows that these subsections (2) and (3) of section 35 are now very rarely if ever applied, at least to textile importations, they being in fact superseded, for practical purposes, by the enactment in September, 1930, of what is now section 36 and of 43. Again, I am told that the application of section 35 (2) and (3) is hampered by great practical difficulties. All I can do respecting Mr. Heward's proposed amendment is to make note of it here for the attention of the Government.

The aforesaid section 6, ss. (1) and (9*a*) also gives the Governor in Council power to act so as to reduce these dumping duties in two ways: (1) by withholding the imposition of duties in cases where it is made to appear that any article of commerce is being made the subject of a monopoly by a Canadian producer, or Canadian producers, and (2) by declaring that the duty shall be less, in any given case, than the difference between the value of the invoice in the current, or average current, rate of exchange and its value in the proclaimed rate. So far as I have been able to ascertain, the power to combat an attempt at a monopoly by exempting certain importations from dumping duties, has been used only once since it was conferred upon the Governor in Council by amendment in 1936. This action was taken in respect to an article outside the category of textiles. The provision authorizing the imposition of a duty less than the difference between the two values in question has been employed only in respect to Great Britain, beginning on October 24, 1931. Since May 1, 1933, no currency exchange duty under this section 6 (9*a*) has been imposed against Great Britain.

Another point which must not be overlooked is that when the Canadian currency is depreciated in terms of foreign currencies the discount on our funds gives additional protection to home manufacturers in the Canadian market, at least until the Canadian costs of production have risen to an extent corresponding to the depreciation of the money. The following table indicates the relative depreciation of currencies during the period 1931 to 1937. It will be noted that from 1932 to 1936 the Canadian dollar was seriously depreciated in terms of the currencies of countries remaining on the gold standard, e.g., France, Netherlands, Switzerland and the United States until 1933, and that this factor served as an addition to the high tariffs which were enacted in 1930.

13. VALUE OF CURRENCIES AS PERCENTAGE OF THEIR GOLD PARITY IN 1929

Parity 1929 in Gold Cents Average	Canada	United Kingdom	United States	Japan	Netherlands	France	Switzerland
1931	96·3	93·2	100·0	98·0	100·1	100·1	100·6
1932	88·1	72·0	100·0	56·4	100·3	100·3	100·6
1933	73·2	68·1	80·6	40·4	100·1	100·0	100·2
1934	60·2	61·8	59·7	35·6	100·0	100·0	100·1
1935	59·1	59·8	59·4	34·2	100·0	100·0	100·0
January.................. 1936	59·1	60·3	59·2	34·4	100·3	100·0	100·1
December............... 1936	59·1	59·6	59·1	33·8	80·2	70·4	70·4
November.............. 1937	59·1	60·6	59·1	34·5	81·5	51·2	70·9

Special Excise Tax

One other tax should be mentioned which has served to increase the protection of Canadian textile manufacturers since the early period of the depression. This is the tax which, although called the special "excise" tax is levied only on imported goods and not on goods of home manufacture. It was first applied on June 2, 1931 (Exhibit 816) when a tax of one per cent was levied on the Customs duty-paid value of textile importations. It is true this tax has been applied on imported raw materials for Canadian textile manufacturers. Nevertheless, as raw materials form only one part of total manufacturing cost, and as the special excise tax is imposed on the value of importations including all customs duties other than special duties, it does increase the relative protection on finished goods. The history of this special excise tax on importations as given in Exhibit 816 is as follows:—

—	Rate on Customs Duty-Paid Value of Importations
June 2, 1931 to April 6, 1932..................	1%
April 7, 1932 to April 18, 1934...............	3%
April 19, 1934 to March 22, 1935.............	3% but 1½% on importations entitled to entry under the British Preferential Tariff or under trade agreements between Canada and other British countries.
March 23, 1935..............................	3% but special excise tax removed from importations entitled to entry under British Preferential Tariff or under trade agreements between Canada and other British countries.

The special excise tax on importations was increased to 3 per cent in April 1932, and has since been maintained at this rate, saving this exception: under the British Preferential Tariff the rate was reduced to 1½ per cent in April 1934, and removed entirely in March 1935. The present position of the Canadian textile industry in this regard is that the excise tax must be paid on imported raw materials not of British origin, whereas importations of finished British products under the British Preferential Tariff and British trade agreements bear no special excise tax.

In dealing with the Japanese question in Chapter I, I referred to the large importations of Japanese raw silk into Canada from the United States. This indirect importation was attributable to the lesser excise duty payable on United States imports than on those coming from Japan on account of the difference in the currency exchange situation between Japan and Canada on the one hand and the United States and Canada on the other. Nevertheless, although the exchange situation with Japan is now much more favourable than it was before January 1, 1936, these importations still follow the established United States channels.

Sections 36 and 43

Special valuations on textile products under section 36 or 43 of the Customs Act were dealt with in the following manner:—

(a) *Fixing of Definite Value under Section 36 (2)*
(cost of production plus a reasonable advance for selling cost and profit)

(1) Departmental letter, April 7, 1932 (Exhibit 827) amplified by Departmental Letter, September 13, 1932 (Exhibit 828).
Cancelled by Appraisers' Bulletin No. 4096, September 5, 1933 (Exhibit 828).

Values were listed for cotton fabrics in the grey, bleached, dyed or printed from the United States, based on New York spot raw cotton price of 7 cents per pound. For every change of one cent per pound in the price of raw cotton the appraisal was to be changed 1·2 cents per pound.

Constructions and widths not listed in the bulletin were to be appraised proportionately.

(2) Departmental letter, April 14, 1932 (Exhibit 848).
Cancelled by Appraisers' Bulletin No. 4166, February 24, 1934.

Special valuations were made for cotton fabrics from the United States, woven from dyed yarns of more than one colour, such as denims and chambrays.

	Value for duty
1st—Goods weighing 2·50 square yards per pound, or heavier	22¾ cents per lb.
2nd—Goods weighing lighter than 2·50 square yards per pound, but not lighter than 4·00 square yards per pound	33 cents per lb.
3rd—Goods weighing lighter than 4·00 square yards per pound	36 cents per lb.

The above values predicated on New York spot raw cotton price of 7 cents per pound with correction of 1·2 cents per pound fabric for each one cent per pound variation in price of raw cotton.

(b) *Fixing of Definite Valuation under Section 43**

Appraisers' Bulletin No. 3789, December 12, 1931 (Exhibit 847), applying to goods entering under *Intermediate or General Tariffs.*

Cancelled (in respect to Intermediate or Most-Favoured-Nation Tariff) by Appraisers' Bulletin No. 4459, effective January 1, 1936 (Exhibit 847).

Minimum values for duty were fixed in Canadian currency for the following:—

	Minimum Value for Duty
Tweeds, suitings, pantings, and similar fabrics, wholly of cotton weighing 6 oz. per square yard	25 cents per lb.
Flannelettes, robe cloths, blanketing, blanket cloths and similar napped fabrics, wholly of cotton, weighing 6 oz. or more per square yard	40 cents per lb.
Flannelettes, robe cloths, blanketing, blanket cloths and similar napped fabrics, wholly of cotton, weighing less than 6 oz. per square yard	44 cents per lb.
Woven fabrics, composed wholly of artificial silk when dutiable under Tariff Item 561	$1.25 per lb.

(c) *Advance on Invoice Value under Section 43**

Appraisers' Bulletin No. 3886, June 7, 1932, (Exhibit 878).

Cancelled (in respect to Intermediate or Most-Favoured-Nation Tariff) by Appraisers' Bulletin No. 4462, effective January 1, 1936.

An advance of 25 cents per pound on the invoice value in Canadian funds was provided in the case of wool jersey cloth and 10 cents per pound on the invoice value of cotton stockinette. (This was scarcely a *fixed* valuation as the advance of 25 cents per pound or 10 cents per pound was made regardless of the selling price.)

* An amendment to the Customs Act in 1933 excluded goods entering under the British Preferential Tariff or any lower tariff. Existing valuations in respect to such goods were held inoperative by the Exchequer Court in November, 1935.

The effects of the appraisals made under the regulations set out above may be illustrated by reference to some of the exhibits prepared by Mr. Hooper. Exhibit 829 deals with sheeting on which definite valuations were set in the Departmental letter of April 7, 1932. This increased the value for duty above the invoice value, thus increasing the *ad valorem* duty and also the excise tax, and, in addition, led to the imposition of a dumping duty equal to the difference between the fixed valuation and the invoice value in Canadian funds.

40" SHEETING, 48 x 48, 2·85 YDS. PER LB.—GREY GOODS—IMPORTED FROM THE UNITED STATES

(Prepared from Exhibit 829)

—	April 6, 1932	May 6, 1932
General Tariff	25% and 4 cts. per lb.	
	$	$
Invoice Value (In Canadian Currency)	55·32	51·66
Value for duty	55·32	67·02
Ad Valorem Duty—25%	13·83	16·76
Specific Duty—4 cts. per lb.	14·03	14·03
Total, Regular Duties	27·86	30·79
Excise Tax	0·83	2·93
Special Duties	None	15·36
Total Duties (Regular, Special and Excise Tax)	28·69	49·08

It will be noted that while the invoice value was $55.32 in April, 1932, and $51.66 in May, 1932, the value for duty as the result of the appraisal under section 36 (2) was advanced from $55.32 to $67.02 and that a dumping duty of $15.36 (difference between $67.02 and $51.66) was levied in May. The *ad valorem* duty and excise tax were also increased by reason of the advance in the value for duty although the rate of excise duty was raised from one per cent to three per cent between the two dates.

The immediate effect of the fixing of minimum valuations under section 43 in respect to a considerable range of fabrics as given in the Appraisers' Bulletin of December 12, 1931, was similar to that described for the valuations under section 36 (2). But as the valuations under section 43 remained fixed regardless of the movement of market prices the tariff might become more or less onerous depending on the movement of export prices. It may also be pointed out that the appraisals given in Exhibits 827, 828 and 848 applied only on imports from the United States, whereas the valuations under section 43 were the same for cheaper fabrics from Japan as for dearer lines from European countries or the United States. The following illustration of the effect of the minimum valuations is drawn from Exhibit 855 which relates to flannelette imported from the United States.

FLANNELETTE, 27", 6·00 YDS. PER LB.—BLEACHED FABRIC—IMPORTED FROM THE UNITED STATES

(Prepared from Exhibit 855)

—	January 31, 1931	February 17, 1932
General Tariff	27½% and 4 cts. per lb.	
	$	$
Invoice Value (In Canadian Currency)	75·00	60·11
Value for Duty	75·00	73·33
Ad Valorem Duty—27½%	20·63	20·17
Specific Duty—4 cts. per lb.	6·67	6·67
Total, Regular Duties	27·30	26·84
Excise Tax—1%	None	1·00
Special Duties	None	13·22
Total Duties (Regular, Special and Excise Tax)	27·30	41·06

The valuations under section 43 which were applied to wool jersey cloth and cotton stockinette differed from those already described in that an arbitrary advance was made on the invoice price. This had the effect of not only increasing the value for duty but making the dumping duty equal to the amount of the advance, i.e. the difference between the invoice value and the value for duty. Exhibit 879 which relates to imports of knitted wool jersey cloth shows the effect of this form of valuation which was established on June 7, 1932.

KNITTED WOOL JERSEY CLOTH IMPORTED FROM GREAT BRITAIN AND FROM THE UNITED STATES

(Prepared from Exhibit 879)

—	From Great Britain		From United States	
	May, 1932	August, 1932	May 16, 1932	July 27, 1932
Rate of Duty	B.P. 25% less 10%		General 45%	
	$	$	$	$
Invoice Value (In Canadian Currency)	77·06	76·88	135·03	139·50
Value for Duty	91·25 (a)	101·88	135·03	164·50
Ad Valorem Duty	20·53	22·92	60·76	74·02
Excise Tax—3%	3·35	3·74	5·87	6·86
Special Duties	5·44 (b)	25·00	....	25·00
Total Duties (Regular, Special and Excise Tax)	29·32	51·66	66·63	105·88

(a) Based on pound sterling at $4.86⅔.
(b) Currency duty based on difference between pound sterling at $4.40 and current exchange rate, $4.10.

Although the invoice value in Canadian funds of the import from Great Britain was lower in August, 1932 than in May, the higher value for duty resulting from the advance of 25 cents per pound increased the regular duty and also the excise tax. The currency duty of $5.44 was replaced by the dumping duty of $25 (25 cents per pound advance on 100 pounds).

The raising of the Intermediate and General tariff rates in September, 1930, and the following years make the British Preferential the most important rates in the Canadian textile tariff from the point of view of controlling domestic prices. The margins between these Preferential rates and the Intermediate and General tariffs affect the distribution of the imports between Great Britain and other countries. The following table shows the shift in the proportions of dutiable textile imports between the fiscal years 1929-30 and 1935-36 from foreign to United Kingdom sources of supply.

14. PROPORTIONS OF DUTIABLE TEXTILE IMPORTS ENTERED FOR CONSUMPTION 1929-30 AND 1935-36

(000 omitted)

Source	1929–30		1935–36	
	$	%	$	%
Total	121,104	100·0	38,575	100·0
United Kingdom	55,024	45·4	25,385	65·8
Other British Countries	389	0·3	256	0·7
United States	32,685	27·0	6,977	18·1
Other Foreign Countries	33,006	27·3	5,957	15·4

Although some reductions were made in British Preferential rates of duty under the United Kingdom Trade Agreement described below, it was provided that the spread between British Preferential and Intermediate tariff rates should not be lessened during the life of the agreement on a considerable number of textile items, thus " freezing " the tariff on these lines.

THE CANADA-UNITED KINGDOM TRADE AGREEMENT, 1932

As a result of the Ottawa Agreement of 1932 some reductions were made in the British Preferential duties from the levels established in 1930-31. The principle of the agreement from Canada's viewpoint was that " protection by tariffs shall be afforded against United Kingdom products only to those industries which are reasonably assured of sound opportunities for success," (Art. 10) and that " protective duties shall not exceed such a level as will give United Kingdom producers full opportunity of reasonable competition on the basis of the relative cost of economical and efficient production," (Art. 11). The agreement also obligated the Canadian Government to constitute the Tariff Board which would be empowered to review the duties on any commodities on request by the Government of the United Kingdom to the Canadian Government. The Canadian Government undertook to preserve the margin of British Preference on articles agreed upon and to eliminate all surcharges on imports from the United Kingdom as soon as the finances of Canada would permit.

The lowering of duties on the chief cotton items under the Trade Agreement of 1932 consisted, in the main, of a reduction of one-third in the specific duties which had been imposed in 1930 and the maintenance of *ad valorem* rates. The specific duties of 3 cents per pound on the yarn and fabric items set out in the first part of this chapter were reduced to 2 cents per pound. The specific duty of 20 cents per pound on cotton blankets was reduced to 10 cents, but the *ad valorem* rate was maintained.

Special provision was made in the Agreement of 1932 for finer quality cotton fabrics, grey, bleached or coloured, composed of yarns of counts of 100 or more. These were made free under the British Preferential Tariff with rates of 27½ per cent plus 3½ cents per pound under the Intermediate and 32½ per cent plus 4 cents per pound under the General Tariff.

No tariff changes were made under the Agreement for silk or artificial silk products although in April, 1934, after an inquiry by the Tariff Board the minimum duty on artificial silk yarn was reduced from 28 cents per pound to 20 cents per pound under the British Preferential Tariff.

Specific duties on the main items for woollen products were reduced generally by one-quarter and the *ad valorem* rates maintained. For example, the specific duty on worsted yarns was reduced from 10 cents to 7½ cents per pound, and on the general fabric item from 25 cents to 18¾ cents per pound. This rate on fabrics remained in effect until March, 1935, when the duties were changed to 27½ per cent and 17 cents per pound, with a proviso that the sum of the specific and *ad valorem* duties should not exceed 65 cents per pound. The light-weight grey fabrics were subdivided into those not exceeding in weight 4 ounces per square yard, which were made duty-free, and those from 4 to 6 ounces, on which the specific duty was reduced from 12½ cents to 9¼ cents.

The specific duty on socks and stockings was reduced under the Agreement from $1 per dozen pairs to 75 cents. Reductions were also made in the specific duties on blankets and steamer rugs. On carpets the specific duty was cut in half, being reduced from 10 cents to 5 cents per square foot.

The policy followed in regard to currency valuation and the excise tax on British imports has already been described. The amendment of section 43 of the Customs Act in 1933 to limit the provisions of the section to goods not entitled to entry under the British Preferential Tariff has also been mentioned.

Tariff Reductions Since 1932

The Ottawa Agreement was to run for a term of five years and because of the provision for maintaining the margin of British preference no changes could be made in the Intermediate or General tariffs without a corresponding reduction in the Preferential rates. Apart, then, from the changes in the Preferential rates on artificial silk yarns in 1934 and on woollen and worsted fabrics, n.o.p., in 1935, no important alterations were made in the textile tariffs until 1936. A change in tariff policy was indicated, however, by the conclusion of the Canada-United States Trade Agreement in December, 1935, and the settlement of the trade dispute with Japan.

Under the terms of the agreement with the United States, imports from that country were entitled to the benefits of the Intermediate Tariff and the special rates and discounts provided under the Canada-France Agreement, 1933. Some special rates were also provided in the United States Agreement but these did not affect any important textile items. In addition to the undertakings in the agreement, the Government of Canada was committed through a letter from its Washington Chargé d'Affaires to the United States Secretary of State, written on November 15, 1935, and made public a few days later, to certain important changes in customs administration. As this letter indicates so clearly the nature of the modifications which foreign exporters desired and the attempt which would be made to remove complaints, it is here quoted in full.

"Canadian Legation,

Washington, November 15, 1935.

"Sir,—At the moment of signature of the Trade Agreement between Canada and the United States of America, I am directed by the Secretary of State for External Affairs to state for the information of your Government that it is the intention of His Majesty's Government in Canada to invite Parliament at its next session to enact legislation amending the provisions of the Customs Act presently fixing the methods of determining the value of merchandise for duty purposes as a step toward the realization of their declared objective of eliminating arbitrary executive interference with the normal courses of trade. They propose, at the first opportunity, to press forward with the reform of the administrative provisions of the Customs Act with this end in view, and I believe that the modifications which they have in mind and which have been discussed with representatives of your Government will stabilize and safeguard the value of the mutual concessions in rates of duty incorporated in to-day's agreement.

"In revising the methods of determining the value of merchandise for duty purposes the following principles, among others, will be incorporated in the contemplated amendments to the Customs Act of Canada:

"(*a*) The value for duty established under authority of Section 36 (2) will not include an advance for selling cost or profit greater than that which in the ordinary course of business under normal conditions of trade, is added, in the case of goods similar to the particular goods under consideration, by manufacturers or producers of goods of the same class or kind in the country of export.

"(*b*) No rate of discount established under Section 37 will operate to increase the value for duty of any goods beyond the price at which such or similar goods are freely offered for sale to purchasers at the time and place of shipment in the country of export, in the usual quantities and in the ordinary course of trade.

"(*c*) In the case of any value for duty which may be established under authority of Section 43, other than those provided for in Schedule I of the Trade Agreement signed to-day, opportunity will be afforded for appeal to the Tariff Board respecting any such value in order to ascertain and make public the finding whether, to what extent, and for what period, such value may be required to prevent the importation of the goods into Canada from prejudicially or injuriously affecting the interests of Canadian manufacturers and producers.

"(*d*) In interpreting the words 'of a class or kind made or produced in Canada' provision will be made to make it clear that the phrase 'made or produced in Canada' in the context means 'made or produced in Canada in commercial quantities' and arrangements will be made for giving adequate notice of the transfer, for customs purposes, of a product from the category, 'not of a class or kind made or produced in Canada,' to the category 'of a class or kind made or produced in Canada.'

"Pending the entry into force of amendments of the Customs Act incorporating the substance of the foregoing principles, the competent Departments of the Canadian Government will, to the extent of their administrative discretion, give the fullest possible effect to these general principles in the administration of the Act.

"In the meantime and pending the entry into force of the legislative changes foreshadowed in this Note, the Canadian Government are prepared as from the 1st January, 1936, to cancel the values for duty purposes established under authority of Section 43 of the Customs Act of Canada and now applicable to the undermentioned goods, the produce or manufacture of the United States, on importation into Canada:—

Meats, fresh, prepared or preserved.	Roses, cut.
Eggs, frozen, dessicated, powdered, etc.	Canned Asparagus.
Loganberries, dried.	Eggs in the shell.
Slack cooperage stock.	Baby chicks.
Lime.	Peas, dried.
Doors of hardwood.	Beans, dried.
Women's and Children's clothing.	Market poultry.
Fabrics of cotton or of artificial silk.	Live stock.
Fringes, gimps and tassels.	Canned salmon.
Electric light fixtures, lamps and shades.	Sugar of milk.

"I am further directed to state that the Canadian Government propose to invite Parliament to permit the entry free of duty and charges of incidental purchases by residents of Canada returning from the United States of America, not exceeding the value of one hundred dollars, under regulations, particularly as to the frequency of such entry and duration of visits, to be prescribed, for such time as treatment substantially equivalent to that now in effect is accorded by the Government of the United States of America to incidental purchases by residents of that country returning from Canada.

"I have the honour to be,
"With the highest consideration,
"Sir,
"Your most obedient, humble servant,
"H. W. WRONG,
"Chargé d'Affaires.

"The Hon. CORDELL HULL,
"Secretary of State of the United States,
"Washington, D.C."

The changes in Customs law and administration which have been adopted as a result of the undertakings given in the letter of November 15, 1935, have already been described in foregoing paragraphs of this chapter.

TARIFF CHANGES, 1936

Rates of duty on a number of cotton and artificial silk items were reduced under the British Preferential Tariff in 1936 as a result of hearings before the Tariff Board of applications under article 13 of the Ottawa Agreement. The Tariff Board recommended the removal of the specific duties from certain cotton yarn and fabric items and also from artificial silk fabrics. The duty on woollen and worsted fabrics, n.o.p. had been reduced in the preceding year.

The rates were then revised as follows:—

—	British Preferential	
	1936 Rates	Previous Rates
Single yarns coarser than 40's	12½%	12½% and 2 cts. per lb.
Ply yarns	15 %	15% and 2 cts. per lb.
Cotton fabrics, grey	15 %	17½% and 2 cts. per lb.
Cotton fabrics, bleached	20 %	20% and 2 cts. per lb.
Cotton fabrics, coloured	22½%	22½% and 2 cts. per lb.
Woven fabrics, wholly or in part of artificial silk	30 %	27½% and 30 cts. per lb.

In the case of artificial silk yarns, the interim report of the Tariff Board in 1934 had led to the reduction in the minimum specific duty under the British Preferential Tariff. As a result of the final report in 1936, a separate classification was established for acetate yarns with an *ad valorem* rate of 5 per cent for singles. The minimum specific duty of 20 cents per pound was removed for other artificial silk yarns which left the effective rate of 20 per cent *ad valorem*. Similar changes were made in the duties for ply yarns.

Tariff Changes, 1937

The Canada-United Kingdom Trade Agreement of February 23, 1937, resulted in further reductions on some textile items under the British Preferential Tariff. The *ad valorem* rate on coloured cotton fabrics was changed from 22½ per cent to 20 per cent—the specific duty having been removed in the previous year. The duties on cotton blankets and wool blankets were reduced from 22½ per cent and 10 cents per pound to 20 per cent and 5 cents per pound.

Some reductions were also made on certain artificial silk and silk items. Artificial silk tops and waste which had previously been dutiable at 5 per cent were made free under the British Preferential Tariff. The duty under tariff item 561, which covers woven fabrics wholly or in part of artificial silk (the rate on which had been reduced in 1936 when the specific duty of 30 cents per pound had been removed and the *ad valorem* rate set at 30 per cent), was now further reduced to 27½ per cent.

The duty on broad silks, which had been unchanged at 27½ per cent under the British Preferential Tariff since September, 1930, was now made 22½ per cent.

Woollen and worsted goods were also affected by the tariff changes in 1937. The specific duty on worsted yarns was reduced to 5 cents per pound from the former rate of 7½ cents, while the *ad valorem* duty of 10 per cent remained unchanged. The rates on woollen and worsted fabrics, n.o.p., were further reduced to 22½ per cent and 12 cents per pound, with a limit of 50 cents per pound for the sum of the two rates. Duties on knitted goods, n.o.p., were reduced from 25 per cent to 20 per cent and the rates on wool stockings made 20 per cent plus 30 cents per dozen pairs, instead of 30 per cent and 75 cents. Socks and stockings, n.o.p., were given a separate classification with a rate of 20 per cent and no specific duty.

The United Kingdom Agreement of 1937 also reduced the number of "bound" textile items on which certain margins of preference were to be maintained. In the 1932 agreement, there were 34 textile items on which the Government of Canada agreed to maintain the spread betwen British Preferential and Treaty or Intermediate rates. In 1937 the number was reduced to ten, some of which are imports for special purposes, e.g., typewriter-ribbons, and all ten items are free under the British Preferential Tariff.

The principal changes in the tariff rates on textile items in 1937 may thus be summarized:—

—	British Preferential Tariff	
	1937 Rate	Previous Rate
Cotton fabrics, coloured	20%	22½%
Woven fabrics, wholly or in part of artificial silk	27½%	30%
Silk thread, crochet silk, etc	15%	17½%
Broad Silks	22½%	27½%
Worsted Yarns for Weavers	10% and 5cts. per lb.	10% and 7½ cts per lb
Yarns for hand knitting	15% and 6cts. per lb.	15% and 11½ cts. per lb.
Worsted and Woolen fabrics, n.o.p	22½% and 12 cts. per lb. (Sum of Ad Valorem and Specific Duties not to exceed 50 cts. per lb.)	27½% and 17cts. per lb. (Sum of Ad Valorem and Specific Duties not to exceed 65 cts. per lb.)
Knitted Goods, n.o.p	20%	25%
Woollen stockings	20% and 30 cts. per doz. pairs	30% and 75 cts. per doz. pairs
Stockings, n.o.p	20%	30% and 75 cts. per doz. pairs
Blankets (cotton or wool)	20% and 5 cts. per lb.	22½% and 10 cts. per lb.

Apart from the reductions in the British Preferential Tariff, the main changes have been the result of the United States Trade Agreement and the settlement of the Japanese trade dispute. The Intermediate tariff rates now apply to imports from the United States, instead of the General tariff which prevailed against that country before the making of the recent agreement, and in addition, the fixed valuations under Section 43 of the Customs Act have been cancelled, as already indicated. The rates of duty established under the Intermediate Tariff are still relatively high, and of course, under the General Tariff, still higher. It should be added, however, that the General Tariff now applies to only a few countries. The falling off in imports from foreign countries can be shown from the following trade figures:—

15. IMPORTS OF CERTAIN TEXTILE MANUFACTURES FROM COUNTRIES OTHER THAN THE UNITED KINGDOM, 1928–1936

Calendar Years	1928	1930	1932	1934	1936
	(000)	(000)	(000)	(000)	(000)
Cotton Yarns (Pounds)	3,621	3,143	2,263	343	424
Cotton Fabrics (Yards)	71,631	59,647	28,993	14,474	19,321
Wool Fabrics (Yards)	6,239	5,171	1,584	537	416
Silk and Mixture Fabrics (Yards)	24 400	13 571	2,882	1,919	1,926
Artificial Silk Yarn (Pounds)	1,934	2,245	945	774	413
Artificial Silk and Mixture Fabrics (Yards)	4,900	14,631	2,973	1,654	3,214

NOTE:—As the basis of recording quantities in the trade returns was changed for some of the above items during the period, it has been necessary to make estimates for some years.

It must be pointed out, however, that all increases or decreases in imports cannot be explained by changes in the tariff rates. With the decline of incomes in Canada after 1929 there would be a decline in total consumption of textiles and imports would naturally fall off. This latter movement had commenced before the imposition of the high tariffs in the fall of 1930. The following table shows imports of the principal groups of cotton fabrics for the first eight months of 1930 compared with the same period of 1929. Only in the case of bleached fabrics was there any increase in imports and even in that case the advance was relatively small.

IMPORTS OF COTTON FABRICS, JANUARY TO AUGUST, INCLUSIVE

—	1929	1930
Unbleached	33,209,821 yds.	20,467,952 yds.
Bleached	9,781,262 yds.	10,127,012 yds.
Piece Dyed	17,284,377 yds.	13,288,114 yds.
Yarn Dyed	5,644,967 yds.	4,201,773 yds.

The increase in the volume of textile imports since 1933 is to be explained partly by an increase in national income and in total consumption of textiles, as well as by the reduction in British Preferential duties in 1932 and from 1935 to 1937. The increase in values are, of course, due to the somewhat larger quantities imported at higher prices. The following table shows the trend of imports in recent years. The extent to which Canadian manufacturers increased their share of the Canadian market is shown by the tables in Chapter V.

16. IMPORTS OF CERTAIN TEXTILE MANUFACTURES

Commodities	Fiscal Years			April to November	
	1934-35	1935-36	1936-37	1936	1937
	(000 lbs.)	(000 lbs.)	(000 lbs.)	(000 lbs.)	(000 lbs.)
COTTON MANUFACTURES					
Cotton Yarns—					
Total	4,895	5,079	5,117	3,303	4,014
United Kingdom	4,606	4,706	4,742	3,036	3,468
United States	285	370	353	134	535
Other Countries	4	3	22	133	11
Cotton Fabrics—Unbleached—					
Total	5,298	5,092	6,390	3,647	5,274
United Kingdom	2,916	2,678	2,810	1,837	2,457
United States	2,373	2,409	3,571	1,806	2,801
Other Countries	9	5	9	4	16
Cotton Fabrics—Bleached—					
Total	1,822	1,830	1,898	1,384	790
United Kingdom	1,352	1,397	1,427	966	682
United States	420	411	436	399	85
Other Countries	50	22	35	19	23
Cotton Fabrics—Piece Dyed—					
Total	4,217	5,045	5,652	3,658	3,628
United Kingdom	3,106	3,381	3,616	2,366	2,191
United States	550	831	1,028	667	702
Other Countries	561	833	1,008	625	735
Cotton Fabrics—Yarn Dyed—					
Total	898	1,241	1,594	981	1,220
United Kingdom	667	735	865	546	606
United States	113	233	297	178	224
Other Countries	118	273	432	257	390
Cotton Fabrics—Printed—					
Total	2,518	2,529	2,673	1,630	1,537
United Kingdom	2,033	2,012	1,980	1,231	986
United States	387	395	565	322	407
Other Countries	98	122	128	77	144

16. IMPORTS OF CERTAIN TEXTILE MANUFACTURES—*Continued*

Commodities	Fiscal Years			April to November	
	1934-35	1935-36	1936-37	1936	1937
COTTON MANUFACTURES—*Concluded*					
	(000 lbs.)	(000 lbs.)	(000 lbs.)	(000 lbs.)	(000 lbs.)
Cotton Velveteens—					
Total	529	595	716	530	405
United Kingdom	482	509	446	377	66
United States	26	33	47	37	41
Other Countries	21	53	223	116	298
WOOL MANUFACTURES					
Woollen Yarn—					
Total	2,957	3,381	3,450	2,215	2,493
United Kingdom	2,932	3,364	3,424	2,197	2,466
United States	5	5	8	7	3
Other Countries	20	12	18	11	24
Wool Fabrics—(Dress goods to be dyed)—					
Total	1,330	1,344	1,340	900	921
United Kingdom	1,303	1,331	1,334	897	917
United States	....	....	....	....	....
Other Countries	27	13	6	3	4
Wool Lustres or Italian Linings—					
Total	60	50	53	32	28
United Kingdom	59	50	53	32	28
United States	....	....	....	....	....
Other Countries	1	....	....	....	....
Wool Tweeds—					
Total	1,312	1,383	1,441	831	681
United Kingdom	1,301	1,366	1,436	829	678
United States	2	1	....	....	....
Other Countries	9	16	5	2	3
Wool Woven Fabrics, n.o.p.; Worsted and Serges; Overcoatings—					
Total	4,938	5,414	6,190	3,968	5,017
United Kingdom	4,787	5,297	6,079	3,894	4,860
United States	45	24	27	13	11
Other Countries	106	93	84	61	146
Wool Plushes—					
Total	11	27	59	51	41
United Kingdom	10	21	38	34	27
United States	1	6	21	10	10
Other Countries	....	....	....	7	4
Wool Blankets—					
Total	399	551	794	660	618
United Kingdom	396	548	791	659	614
United States	2	2	2	....	4
Other Countries	1	1	1	1	....
Wool Socks and Stockings—	Doz. Pr.	Doz. Pr.	Doz. Pr.	Doz. Pr.	Doz. Pr.
Total	86	93	111	89	102
United Kingdom	85	92	110	88	100
United States	....	....	....	....	....
Other Countries	1	1	1	1	2
Carpets and Rugs—	$	$	$	$	$
Total	575	557	709	480	654
United Kingdom	182	199	286	190	261
United States	9	22	57	15	20
Other Countries	384	336	367	275	373
SILK MANUFACTURES					
Silk Fabrics (to be dyed)—	(000 yds.)	(000 yds.)	(000 yds.)	(000 yds.)	(000 yds.)
Total	77	74	129	95	47
United Kingdom	....	....	....	....	....
United States	....	....	19	15	....
Other Countries	77	74	110	80	47

16. IMPORTS OF CERTAIN TEXTILE MANUFACTURES—*Concluded*

Commodities	Fiscal Years 1934-35	1935-36	1936-37	April to November 1936	1937
SILK MANUFACTURES—*Concluded*	(000 yds.)	(000 yds.)	(000 yds.)	(000 yds.)	(000 yds.)
Silk Fabrics, n.o.p.—					
Total	737	794	853	539	267
United Kingdom	21	36	40	27	27
United States	210	263	272	126	98
Other Countries	506	495	541	386	142
Silk Velvets and Plushes—					
Total	692	679	537	485	338
United Kingdom	24	59	31	30	37
United States	227	237	214	199	121
Other Countries	441	383	292	256	180
Silk Fabrics (for Neckties)—	$	$	$	$	$
Total	790	875	898	582	668
United Kingdom	34	60	88	51	48
United States	180	199	260	142	151
Other Countries	576	616	550	389	469
Silk Ribbons—					
Total	67	76	95	63	88
United Kingdom	3	4	6	3	5
United States	32	38	52	31	46
Other Countries	32	34	37	29	37
ARTIFICIAL SILK MANUFACTURES	(000 lbs.)	(000 lbs.)	(000 lbs.)	(000 lbs.)	(000 lbs.)
Artificial Silk Yarns—					
Total	965	1,078	1,411	....	....
United Kingdom	411	446	998	....	....
United States	128	301	128	....	....
Other Countries	426	331	285	....	....
From May 1, 1936, Artificial Silk Yarn has been classified as Cellulose Acetate Yarn and other synthetic yarn.					
Artificial Silk Yarns, Cellulose Acetate—					
Total	....	....	....	169	313
United Kingdom	....	....	....	162	307
United States	....	....	....	7	4
Other Countries	....	....	....	....	2
Artificial Silk Yarns, n.o.p—					
Total	....	....	....	687	1,140
United Kingdom	....	....	....	458	832
United States	....	....	....	80	41
Other Countries	....	....	....	149	267
Artificial Silk Fabrics—					
Total	934	697	1,651	910	1,172
United Kingdom	736	441	942	505	736
United States	85	130	180	89	132
Japan	52	73	474	283	269
Other Countries	61	53	55	33	35
Artificial Silk Ribbons—	$	$	$	$	$
Total	126	123	115	75	114
United Kingdom	4	2	2	1	2
United States	39	49	67	41	62
Other Countries	83	72	46	33	50

The recent reductions in the British Preferential rates and the maintenance of the high duties under the Intermediate and General tariffs have greatly widened the margin of preference for British goods. The continuance of specific duties on many textile items in the Intermediate and General tariffs makes it difficult to compare the relative incidence of duties on British and foreign imports. However, some comparison can be made by calculating the duties on similar articles under the different tariff columns, even if the identical article might not be available in each country. A comparison of this kind shows the following changes in margins of preference for cotton, wool, silk and artificial silk articles for which information is available. Discounts from the British Preferential or Intermediate tariffs have been allowed where provided, while the 3 per cent excise tax has been included in calculating duties on foreign imports. It will be noted that in every case but one, the effective rates under the Intermediate Tariff are considerably higher than prior to September 1930, and that the margin of British Preference has been greatly increased.

RELATIVE MARGIN OF PREFERENCE UNDER THE BRITISH PREFERENTIAL TARIFF FOR IMPORTS FROM THE UNITED KINGDOM AND THE UNITED STATES

COTTONS

(Based on United States Prices)

Item	British Preferential		United States		Margin British Preference	
	1929	Oct. 1937	1929 *(a)*	Oct. 1937 *(b)*	1929	Oct. 1937
	%	%	%	%	%	%
Cotton Warp Yarn, 30's Single	12½	12½	22½	32·3	10·0	19·8
Cotton Hosiery Yarn, 30's Single	12½	12½	22½	18·5	10·0	6·0
Grey Sheeting, 40", 48 x 48, 2·85 Yards Per Pound	12½	15	22½	41·7	10·0	26·7
Cotton Sheeting, 72", 68 x 76, 1·40 Yards Per Lb.—Bleached	15·0	18·0	25·0	35·7	10·0	17·7
Cotton Fabrics, Dark Colours, 36-37", 80 x 80, 4·00 Yds Per Lb	18·0	18·0	27½	39·5	9·5	21·5

(a) Under General Tariff.
(b) Under Intermediate Tariff.

RELATIVE MARGIN OF PREFERENCE UNDER BRITISH PREFERENTIAL TARIFF AND UNDER INTERMEDIATE TARIFF OR FRENCH TREATY RATES

WOOL FABRICS

(Based on English Prices)

Item	British Preferential		Intermediate		Margin British Preference	
	1929	Oct. 1937	1929	Oct. 1937	1929	Oct. 1937
	%	%	%	%	%	%
Serge 64's, 16 oz. piece dyed	24½	27·2	29½	59·7	5·0	32·5

RELATIVE MARGIN OF PREFERENCE UNDER BRITISH PREFERENTIAL TARIFF AND UNDER INTERMEDIATE TARIFF OR FRENCH TREATY RATES

Wool Socks and Stockings

(Price Based on Average Value of United Kingdom Imports)

—	British Preferential		Intermediate		Margin British Preference	
	1929	Oct. 1937	1929	Oct. 1937	1929	Oct. 1937
	%	%	%	%	%	%
	22¼(c)	24·5	29¾	69·5	7½	45·0
	24¾(d)	....	29¾	....	5·0	....

(c) Valued from 90 cts. to $1.50 per pound.
(d) Valued at over $1.50 per pound.

Silk Fabrics

(Based on Canadian Prices)

Item	British Preferential		French Treaty		Margin British Preference	
	1929	Oct. 1937	1929	Oct. 1937	1929	Oct. 1937
	%	%	%	%	%	%
No. 14 Weighted Crepe, Printed........	15¾	20¼	29¼	60·0	14½	39¾

Artificial Silk Fabrics

(Based on United States Prices for October, 1936)

Item	British Preferential		French Treaty		Margin British Preference	
	1929	Feb. 1937	1929	Feb. 1937	1929	Feb. 1937
	%	%	%	%	%	%
Rayon Taffeta, 5·76 yards per lb., piece dyed..............................	15¾	24¾	32½	82·1	16¾	57·4

These examples, together with those given elsewhere in this report, serve to show how hard it may be to measure the effect of specific duties. Everybody can understand what is meant by a 20 per cent *ad valorem* rate of duty. Some specific rates of duty would be equally comprehensible when the unit is familiar, e.g. 3 cents a pound on tea. But, a duty in cents per pound on textiles is not comprehensible to the majority of persons who make use of textile products, however significant it may be to those engaged in the trade.

It was argued by Counsel for the Primary Textiles Institute that the "only accurate measure of the actual protective effect of the duties for Canadian industry as against the United Kingdom cotton industry" is the number of cents duty collected per pound of imports. The table he presents is as follows:—

Year	Grey Cotton	Bleached Cotton	Coloured Cotton
	cts. per lb.	cts. per lb.	cts. per lb.
1928..	7·20	12·03	16·78
1931..	8·62	12·92	15·23
1933..	6·83	10·96	13·04
1936..	4·44	8·69	10·87

The above figures are based upon the total imports during the year and any variations caused by differences in the character of the goods being imported are not taken into account. It is possible to determine the duty in cents per pound on two English grey cloths from Exhibit 860 and 861, viz:—

DUTY IN CENTS PER POUND OF CLOTH

Date	Sateens (Ex. 860)	Twills (Ex. 861)
	Cents	Cents
June, 1930	6·0	4·7
June, 1931	8·8	7·4
June, 1932	11·3	8·2
June, 1934	8·6	6·1
March, 1935	7·9	5·7
June, 1936	5·8	3·7
March, 1937	7·0*	4·3*
November, 1937	6·4*	3·8*

* Based on quotations in the Textile Weekly.

It will be seen that the duty expressed in cents per pound on these two articles rose greatly above the level of June, 1930, during the period when specific and special duties were applied on imports. In 1936, the rate in these terms was somewhat lower than in June, 1930, but the rise in English prices in the first half of 1937 caused the duty in cents per pound, to increase, although the recent fall in prices, due largely to the fall in the price of raw cotton, has reversed the upward trend, as is shown by the figures for November, 1937.

The argument of Counsel for the Primary Textiles Institute is not altogether sound, because, for instance, if the rates are increased to a prohibitive level no goods are imported, no duty is collected, and the "actual protective effect" as measured in this way would be nil. Nethertheless, an important problem is raised by the comparison of 1928 and 1936. It was argued by Counsel that the same *ad valorem* rate had a very different protective effect at different levels of raw material prices. This contention is supported by the Tariff Board in their final report on woollens, Reference No. 1, 1934, from which the following extracts are taken: —

'The degree of protection provided by a pure *ad valorem* duty in an industry characterized by wide fluctuations in the price levels of its raw materials is highly unstable. When prices are rising and the volume of business is expanding, such a duty automatically provides increased protection at a time when no increase may be required, and when raw material prices are falling and the volume of business is shrinking, the difficulties of a protected industry are increased by the automatic reduction of protection."

* * * * * *

"Such fluctuations in the values of raw materials, which are seldom accompanied by corresponding changes in industrial wages and overheads, render it impossible for any purely *ad valorem* duty, designed to equalize total cost of production in two different countries, to keep pace with changing prices."

* * * * * *

"One alternative to an *ad valorem* duty is a specific duty of so many cents per pound or yard, the incidence of which does not change with every fluctuation in the wool market."

* * * * * *

"As an illustration of the complexity inherent in a schedule of strictly specific rates, it has been computed that a scale of specific rates on worsted yarn to allow for differences in count, colour, twist and method of spinning, would require as many as 160 different rates."

* * * * * *

"A compound duty, such as those now imposed by the Canadian Tariff upon many textile products, may be regarded as a tenable compromise."

With regard to future policy, however, the following points may be suggested. No tariff can be constructed to take care automatically of all possible contingencies. Rising raw material prices may sometimes operate to make existing *ad valorem* rates more protective, just as falling raw material prices have the opposite effect.

Although the discussion of the tariff has so far been confined to its protective aspects it must not be overlooked that it is also an important source of revenue. The administration of a tariff from the viewpoint of revenue runs counter to the granting of protection. In other words, revenue is secured when goods are imported, whereas protection is most effective when goods are excluded. The amount of revenue secured from customs is thus in inverse ratio to the quantum of protection in the tariff. This statement must be qualified by saying that the flow of imports is dependent upon the general state of industrial activity in Canada, tending to rise during periods of prosperity and fall during periods of depression.

In the fiscal year 1929-30 receipts from customs duties amounted to $179,429,920 out of total revenue receipts of $445,916,992 secured by the Dominion Government. By the year 1933-34, customs duties had declined to $66,305,356, while total revenues were $324,471,271. The former total does not, however, include $14,534,620 collected as special excise duties on importations although it does include special duties. Although revenue from customs duties has been increasing in recent years—the gross figure for the year ending March, 1937, was $92,282,059 against $73,154,472 for 1934—the totals are far below the amount collected in the fiscal year 1929-30. In part, this is due to lower prices of imported goods, but to a greater extent to a decline in the volume of imports, which, in spite of higher rates of duty, yield smaller revenues.

Import duties collected on textile products have declined greatly during the period under review. The gross customs revenue from all imports and for textiles and manufactures for the fiscal years 1920 to 1937 are shown in the table given below. The factors affecting customs revenue which have already been mentioned, such as volume of imports, relative rates of duty and the level of prices, must be borne in mind when considering the totals in this table:—

17. IMPORT DUTIES COLLECTED, FISCAL YEARS ENDING MARCH, 1920 TO MARCH, 1937

(000 Omitted)

Fiscal Year ending March	All Imports	Textiles and Manufactures Thereof	Percent Duties collected on Textile Imports to Total Duties
	$	$	
1920	187,524	38,674	20·6
1921	197,668	42,557	21·5
1922	121,478	25,659	21·2
1923	133,803	27,687	20·7
1924	135,122	26,603	19·7
1925	120,122	25,494	21·2
1926	143,933	27,196	18·9
1927	158,966	30,236	19·0
1928	171,873	30,353	17·7
1929	200,480	31,989	15·9
1930	199,012	30,237	15·2
1931	149,251	24,401	16·4
1932	113,998	18,827	16·5
1933	77,272	11,134	14·5
1934	73,154	11,621	16·1
1935	84,627	11,705	13·8
1936	82,784	11,890	14·3
1937	92,282	13,074	14·2

CHAPTER V

PRICES AND PRODUCTION

It will now be in order to trace, and in so far as is possible to account for, the growing disequilibrium during the depression years between the value of primary products, particularly those which figure largely as export commodities, on the one hand, and of consumer's goods, particularly textile products, on the other hand. A study of the trend of prices in the protected textile industry will determine the extent to which these prices were adjusted to meet the declining incomes of those engaged in the exposed industries, and the part played by higher tariffs in preventing a more complete adjustment. Account must be taken of the movements in the prices of raw materials and of the trend of production and of prices in the United Kingdom and in the United States, the two countries supplying the greater part of imports of textile products. An outline of the changing position of the export industries, in so far as this may be gathered from trade statistics, will serve as a background against which to study the fortunes of the textile industry.

The varying positions of the export industries of Canada are indicated in the trade statistics and in the prices of principal commodities. The decline in value of exports is due, of course, to changes in quantities as well as in unit values, but the latter factor was the more important of the two. The quantum of exports from Canada declined by 23 per cent between the calendar years 1929 and 1932, which was the low point in volume of exports, but the index of export prices fell 40 per cent in this period.

The value of exports of Canadian produce had declined to 52 per cent of the 1929 level by 1931 and to 46 per cent by 1932, which again marked the turning point in Canada's export trade. The changes in values from 1929 to 1936 for the principal commodity groups are shown in Table 18. Agricultural exports, including animal products, and exports of mineral products, declined by 1932 to the extent already indicated for all exports, while exports of wood products fell off only slightly less in value.

18. SUMMARY OF EXPORTS OF CANADIAN PRODUCE, FOR CALENDAR YEARS 1929 1932, 1934 AND 1936

(000 omitted)

—	1929	1932	1934	1936
	$	$	$	$
Agricultural and Vegetable Products (except Chemicals, Fibres and Wood)	429 801	204,057	229,380	346,981
Animals and Animal Products (except Chemicals and Fibres)	140,829	55,588	82,570	124,695
Fibres, Textiles and Textile Products	9,472	4,815	7,335	12,227
Wood, Wood Products and Paper	292,601	133,982	161,137	210,207
Iron and Its Products	90,101	16,326	37,402	52,304
Non-Ferrous Metals and Their Products	150,578	100,531	199,010	211,817
Non-Metallic Minerals and Their Products (except Chemicals)	29,720	9,658	15,758	23,974
Chemicals and Allied Products	21,828	11,033	14,350	17,750
Miscellaneous Commodities	19,896	10,220	11,704	15,251
Total	1,184,826	546,210	758,646	1,015,206

Prices of commodities entering into Canada's export trade reflect the relative resistance of the different industries to the general decline in prices. Agricultural products suffered most as the relative stability of farm production in the face of general industrial curtailment was naturally reflected in the terms of exchange between farm products and manufactured goods, resulting in a greater decline in the prices of agricultural products. The position of Canadian agriculture was also seriously affected by the fiscal policies adopted by importing countries. The protection afforded national production in these countries tended to restrict our markets and to cause our export prices to fall still further.

While the fall in prices of other export commodities was not, on the whole, as severe as in the case of agricultural products, the general price index for exports declined 34·4 per cent between 1929 and 1931, and 40·5 per cent by 1932, whereas the general wholesale price index for Canada fell 30·2 per cent by 1932 and that for manufactured goods only 24·9 per cent in the same period. The trend of prices of export commodities is shown in the following table.

19. INDEX NUMBERS OF WHOLESALE PRICES OF CERTAIN EXPORT COMMODITIES
(1929 = 100)

—	All Exports	Wheat—No. 1 Northern	Livestock	Fir—No. 1	Newsprint Paper Rolls	Lead—Domestic
1929	100·0	100·0	100·0	100·0	100·0	100·0
1930	83·9	70·2	89·6	86·4	100·0	82·3
1931	65·6	43·8	61·1	61·6	90·9	62·4
1932	59·5	41·4	49·2	54·0	78·7	52·6
1933	59·9	45·4	44·5	61·8	62·0	55·4
1934	65·7	55·7	55·8	77·5	60·2	51·0
1935	67·5	62·9	63·9	68·7	60·2	58·7
1936	72·5	69·8	58·3	77·1	62·9	69·5
1937 (October)	87·4	106·0	71·4	71·9	65·4	72·3

It is characteristic of periods of falling prices that prices of raw materials fall first and most severely. The plight of Canadian raw material producers has already been indicated and it needs scarcely be said that the shrinkage in incomes of this group resulted in a serious curtailment of the market for industrial products. This was accompanied by a fall in the purchasing power of urban communities through unemployment, lower wages, etc., with a further depressing effect upon agricultural prices. Raw material producers obtained some relief from the general fall in prices of industrial goods, but as their costs could not be reduced in proportion to their loss in income the balance was by no means restored.

Textile manufacturers found the prices of their basic raw materials declining greatly. The price of raw silk suffered most severely and accounted for some of the difficulties faced by Japan where this product was a very important export commodity. The general movements in prices of textile materials are given in Table 20; the index for bleached sulphite pulp has been added to indicate, in a measure, the trend in the basic material for viscose yarn.

20. INDEX NUMBERS OF WHOLESALE PRICES OF TEXTILE RAW MATERIALS
(1929—100)

Year	Textile Fibres				Bleached Sulphite Pulp
	Raw Cotton	Raw Wool	Raw Silk	Combined Index	
1929	100·0	100·0	100·0	100·0	100·0
1930	74·2	61·4	72·0	71·2	92·2
1931	49·7	48·1	53·4	50·4	86·7
1932	42·6	34·7	37·4	41·3	73·3
1933	53·2	51·4	35·4	51·1	69·9
1934	69·2	67·1	26·4	62·8	73·3
1935	69·2	55·4	33·9	62·0	71·3
1936	70·8	74·5	36·2	68·8	70·7
April— 1937	80·8	100·1	40·0	82·6	82·6
October— 1937	52·2	85·3	34·8	59·6	98·6

The fall in prices of textile raw materials might be expected to benefit textile manufacturers in that, as the selling prices of their products fell in a lesser degree, the manufacturing margin would be widened. There is some indication that this was the initial effect. However, raw materials form only one item in the manufacturing costs and the declining volume of production with the consequent increase in unit costs, tends to offset the effect of the fall in the price of raw materials.

Exhibit 1361, which is a statement prepared by the Dominion Textile Company, shows the mill spread per pound, that is the margin between the cost of the raw material and the selling price of the finished product, on the total production of the company's grey mills. The margin had been declining from 1926 and for the company's fiscal year ended March 1929 averaged 28·28 cents per pound. The results for the following years were:—

Year Ending March	Mill Spread per lb. Cents
1930	29·17
1931	30·80
1932	30·16
1933	28·33

There was no question that the prices of manufactured textile goods would decline during the period of deflation, particularly in view of the serious decline in prices of textile raw materials. The important question was the extent to which the prices of manufactured goods would be brought down to meet the reduction in the incomes of those engaged in the exporting industries. The continued reiteration by representatives of the textile industry, during the course of the hearings, that prices were not advanced after the imposition of higher duties in September 1930 does not meet the point now under discussion. It is necessary to examine the extent to which prices were actually reduced, always keeping in mind the drastic fall in the cost of textile fibres.

The movements in the indices of wholesale prices and export prices may first be compared with the trend in prices of textile raw materials and finished goods. The following table shows that the prices of textile raw materials fell more than export prices, which, as we have already mentioned, declined more than the general wholesale index. The index for finished textile goods, declined in approximately the same degree as export prices from 1929 to 1930, but thereafter until 1935 remained above the general index of wholesale prices.

21. INDEX NUMBERS OF WHOLESALE PRICES OF EXPORT COMMODITIES AND TEXTILES

(1929—100)

Year	General Wholesale Index	Manufactured Goods of all Kinds	Export Prices	Textiles: Raw Materials	Textiles: Manufactures
1929	100·0	100·0	100·0	100·0	100·0
1930	90·1	93·9	83·9	71·2	83·4
1931	73·4	80·4	65·6	50·4	78·5
1932	69·8	75·1	59·5	41·3	75·1
1933	70·2	75·5	59·9	51·1	76·0
1934	74·9	78·9	65·7	62·8	78·1
1935	75·4	78·3	67·5	62·0	74·4
1936	78·0	79·1	72·5	68·8	73·2
April—1937	90·0	86·6	90·9	82·6	77·7
October—1937	88·6	87·4	87·4	59·6	75·4

The prices of textile manufactures did not move uniformly even for products made from the same fibre. While the relative price of raw materials was the major factor in the movements, domestic or foreign competition, or its lack, played an important part.

The group indices of prices for textile fabrics reveal a general downward tendency during the depression with a low point in 1932 and an upward trend thereafter. The index for silk fabrics, however, continued to fall after 1932, as the price of raw silk did not reach the lowest point until 1934.

22. INDEX NUMBERS OF WHOLESALE PRICES OF FABRICS

(1929=100)

Year	Cotton Fabrics	Wool Cloth	Silk Fabrics	Rayon Viscose Yarn
1929	100·0	100·0	100·0	100·0
1930	90·4	85·7	82·7	80·1
1931	79·5	77·2	76·9	79·0
1932	75·1	73·1	76·6	77·5
1933	79·2	77·1	67·6	77·4
1934	83·1	83·1	60·5	72·6
1935	80·9	76·1	57·2	67·9
1936	79·5	81·7	56·2	55·2
April, 1937	84·2	88·1	59·3	54·3
October, 1937	82·0	86·4	58·3	54·3

The price of rayon viscose yarn has been inserted in the above table as it has not been possible to secure a reliable measure of the trend in prices of rayon fabrics owing to the relative newness of the industry and the rapid changes in cloth construction during the period under review.

The extent to which rayon fabric prices followed rayon yarn prices throughout the period cannot be determined. From Exhibit 867, it is possible to trace the movement in yarn and fabric prices for one cloth, but whether the trend would be representative of rayon fabric as a group cannot be stated from the
The price of rayon viscose yarn has been inserted in the above table as it

INDEX NUMBERS OF PRICES OF RAYON TAFFETA AND ARTIFICIAL SILK YARNS

(Exhibit 867)

—	Taffeta	Yarn
April, 1931	100·0	100·0
April, 1932	109·5	95·8
April, 1933	93·0	78·1
March, 1934	93·0	72·9
March, 1935	91·0	70·8
January, 1936	86·1	70·8

The extent to which international competition prevails in the rayon yarn field is difficult to determine. It is obvious that the tariffs adopted by practically all rayon yarn-producing countries have tended largely to preserve the home market for yarns for domestic producers, but apart from fiscal policies there have been various attempts to establish international control by the leading producing companies. In Canada, both manufacturers of rayon yarns, Canadian Celanese Limited and Courtaulds (Canada) Limited, are closely connected with companies in the United Kingdom and the United States, and through them, with companies in other countries. A report by the United States Department of Commerce, entitled "Representative International Cartels, Combines and Trusts," showed that prior to 1929 national and international cartels existed among rayon producers. The following quotations are taken from this report:—

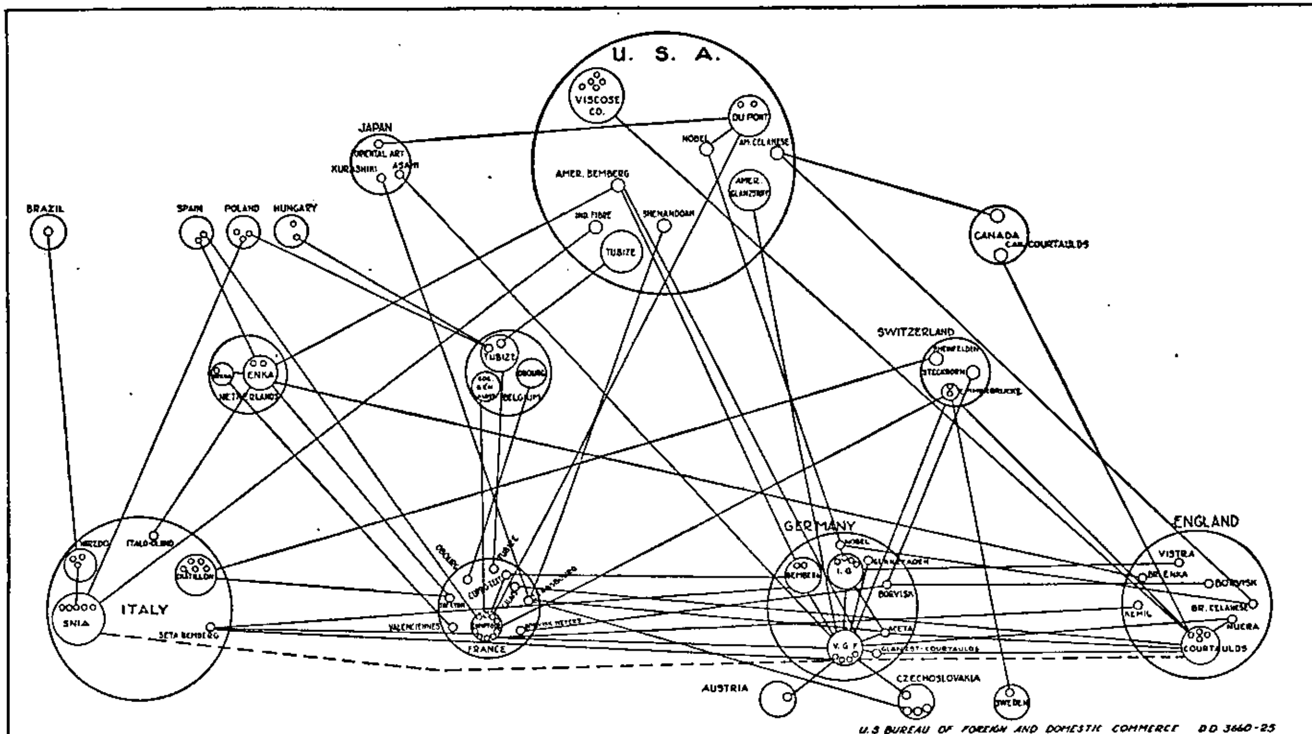
"The international rayon cartel is typical of an industry of recent origin, which has within comparatively few years taken third rank among the textile industries of the world, and which supplies a growing consumer demand for wearing apparel and style goods. This cartel is a combination of three of the dominating units in the rayon industry, the British Courtaulds, the German Glanzstoff, and the Italian Snia Viscosa concerns. These three groups operate subsidiaries and branch plants in numerous foreign countries and through interlocking stock holdings have established a network of commercial interrelations throughout the world. Their co-operative arrangements include division of markets, joint use of patents and manufacturing processes, and price understandings."

The world-wide interrelations among rayon producers are then described as follows:—

"The cartel agreement between Courtaulds, Glanzstoff and Snia Viscosa forms the center of the world-wide network of interrelations in the rayon industry.

"Outside this central group are the immediate domestic and foreign affiliations of the three parent companies. Courtaulds have subsidiaries in the United States, France, Canada and Spain, and a converting plant in India. The Glanzstoff concern has subsidiaries in Austria, Czechoslovakia, and the United States, and holds an interest in a leading concern in Japan. The Bemberg concern, closely affiliated with Glanzstoff, has subsidiaries in Italy, France and the United States. The Belgian Tubize operates subsidiaries in Hungary, France and Poland. The Dutch Enka and Breda concerns have subsidiaries in England, Italy, France and Germany, the United States, Belgium and Spain. Then there are rayon plants founded jointly and companies in which one or the other of the three major concern holds a part interest in the share capital, though not a controlling interest. In other cases, the interrelationship is based on patent agreements or technical collaboration. Interlocking directorates form an additional bond of union."

In 1930, a report to the League of Nations on the "Economic Aspects of Several International Industrial Agreements" stated that, although there were close friendly relations between the old groups, Courtaulds, Comptoir (France) and Glanzstoff-Aku, the rise of newer producers has tended to lessen the influence of the large groups. Nevertheless, according to the above report, the large groups have made efforts to complete arrangements for the stabilization of prices and sales conditions. Whether success has yet attained these efforts cannot be definitely determined, but in so far as Canada is concerned, it is clear that the two producers are closely related to the international concerns and the pricing policies of the Canadian producers and the allocation of the Canadian market,



Interrelations of leading rayon producers.

in so far as imports enter under the preferential tariff, are largely within the discretion of the large groups of producers. On this important question of the supply of rayon yarns to Canadian manufacturers, I think it well to quote here from the report of the Tariff Board made in 1936 upon a reference on the subject of artificial silk yarns, at pages 9 and 10.

"Acetate yarn is produced in the United Kingdom by:—

British Celanese Ltd.
Cellulose Acetate Silk Co. Ltd.
Courtaulds Ltd.
Nelsons Silk Ltd.

"British Celanese Ltd. being affiliated with Canadian Celanese Ltd. is precluded from shipping to Canada, and Nelsons Silk Ltd. produces yarn apparently only for its own use in its affiliated company, Messrs. James Nelson Ltd. Courtaulds Ltd. is the parent company of Courtaulds (Canada) Limited, and produces in the United Kingdom both viscose and acetate yarns. This company, its Canadian subsidiary informs the Board, will ship acetate yarn to the Canadian market at the current export prices of acetate yarn in the United Kingdom.

"Cellulose Acetate Silk Co. Ltd. is stated to be an independent company anxious to obtain business in the Canadian market. This company and Courtaulds Limited are presently supplying acetate yarn to the Canadian market.

* * * * * *

"Viscose yarn is produced in the United Kingdom by:—

Courtaulds Ltd.
British Enka Artificial Silk Co. Ltd.
Breda Viscada Ltd.
Harben's (Viscose Silk Manufacturers) Ltd.
Kirklees Ltd.

There are in addition other small producers, but their output is consumed in the United Kingdom.

"Courtaulds Ltd. being the parent company of Courtaulds (Canada) Limited naturally does not ship to Canada. British Enka and Breda Viscada are both connected with the International Rayon Trading Company which includes Dutch Enka, etc. According to information given to the Board, these two companies were established to supply the United Kingdom market and any surplus for export is marketed by the International Rayon Trading Company. Neither of these companies has any representation in Canada, although the International Rayon Trading Company is represented and does market rayon yarn from Dutch Enka in Canada.

"The remaining two companies, Harben's (Viscose Silk Manufacturers) Ltd. and Kirklees Ltd. have stated that they have no surplus yarn available for export.

"In other words, it appears unlikely that there is any viscose yarn available to be exported to Canada.

"British Bemberg Ltd. produces cuprammonium artificial silk yarn, and has been exporting to Canada. The amount of such yarn used in the market appears limited, and does not seem to be much in demand."

Some difficulty is encountered in tracing the price movements for textile products other than fabrics, as styles and qualities have been greatly modified during the period. Silk stockings, for example, are now demanded in much lighter constructions than in the pre-depression period, while other knitted goods are greatly affected by changes in fashions and methods of manufacture. The index numbers of prices for such lines must, therefore, be considered in the light of the changes in the character of the products.

23. INDEX NUMBERS OF WHOLESALE PRICES OF TEXTILE PRODUCTS, OTHER THAN FABRICS
(1929=100)

Year	Cotton Underwear	Woollen Hosiery and Knit Goods	Silk Hosiery
1929	100·0	100·0	100·0
1930	97·2	86·2	86·4
1931	90·4	77·9	78·2
1932	84·7	72·2	76·5
1933	82·4	72·2	68·5
1934	86·9	80·9	67·9
1935	87·5	77·1	67·8
1936	87·2	76·9	67·8
April, 1937	89·6	78·3	67·3
October, 1937	90·0	79·5	67·3

This general review of textile prices has shown that the prices of manufactures, with the exception of silk products, moved in much the same manner as the general level of industrial prices in Canada between 1930 and 1934. The disparity between the incomes of the export industries and the prices of manufactured goods during these years was, therefore, only partially relieved. The tariff served to protect textile manufactures from the downward pressure on prices which export industries faced in the world markets. The degree to which domestic textile manufactures were sheltered can be measured in one way by comparing the movement of Canadian prices with prices in the two main countries of supply—United Kingdom and the United States—and by converting the prices in these countries into Canadian funds.

As both the United Kingdom and the United States extended greater protection to their textile industries during the depression than they had been given previously, the movement of prices in these countries was determined largely by such factors as domestic competition and demand. The United Kingdom as a leading export country felt the effects of the contraction in world textile trade. In the United States, on the other hand, the changes in the domestic demand and the competition between producing areas (North and South) were the major factors affecting prices in the early stages of the depression. Productive capacity in both the United Kingdom and the United States had been considerably in excess of effective demand before the depression set in, and the contraction which followed aggravated an already serious situation, particularly in the cotton branch of the industry. It is not surprising to find that textile prices in both the United States and the United Kingdom fell to lower levels than those prevailing in Canada. The following table illustrates the movements for the principal manufactured goods for which price series are available.

24. INDEX NUMBERS OF WHOLESALE PRICES OF TEXTILE PRODUCTS
(1929=100)

Year	Cotton Fabrics			Wool Fabrics			Silk Hosiery	
	Canada	United States	United Kingdom	Canada	United States	United Kingdom	Canada	United States
		(a)			(b)			
1929	100·0	100·0	100·0	100·0	100·0	100·0	100·0	100·0
1930	90·4	85·7	82·0	85·7	89·8	80·0	86·4	84·7
1931	79·5	66·9	70·2	77·2	69·7	67·1	78·2	61·7
1932	75·1	54·7	71·2	73·1	59·0	65·9	76·5	47·2
1933	79·2	72·1	67·1	77·1	70·9	71·8	68·5	53·2
1934	83·1	87·6	74·6	83·1	81·5	76·5	67·9	55·7
1935	80·9	84·4	71·8	76·1	77·8	74·1	67·8	56·3
1936	79·5	80·8	72·7	81·7	84·8	83·0	67·8	55·2
April, 1937	84·2	95·8	87·2	88·1	95·6	86·2	67·3	59·0
October, 1937	82·0	73·5	77·3	86·4	92·1	81·5	67·3	60·6

(a) Cotton Goods. (b) Woollen and Worsted Goods.

Although the official price indices indicate that prices for silk hosiery in Canada have not fallen to the same extent as in the United States, the large variety of constructions and differences in quality make comparison difficult. Information received from one large American manufacturer with a subsidiary in Canada suggests that for better quality women's stockings Canadian prices declined more than in the United States and are now lower than in that country. The following are the prices in 1929 and 1937 for a standard 7-thread stocking made by this manufacturer in Canada and the United States.

—	Canada	United States
1929	$11.27 per doz.	$10.50 per doz.
1937	$6.71 per doz.	$ 7.25 per doz.

Prices in the United States, in so far as the figures in Table 24 can be considered representative, had fallen further by 1932 than in either the United Kingdom or Canada. Canadian prices, on the other hand, were maintained at a higher level compared to 1929 than those in the United Kingdom.

The relative movements of prices in national currencies indicate the extent to which domestic prices were adjusted in each country, but they fail to reveal the terms on which Canadians could have purchased textile products if the tariff had not been increased in 1930 and 1931. The most accurate way of making such an appraisal would be by taking the prices of foreign products comparable to Canadian goods and determining the landed cost of possible imports and of similar Canadian goods. Unfortunately, such a study could not be undertaken, except for some manufactures of the United States, and it is necessary, therefore, to resort to the method of expressing the price indices already used in terms of Canadian currency.

The differences which appear when the price indices are expressed in Canadian funds result from the fluctuations of Canadian exchange in London and New York. As the Canadian dollar was at a discount in the United States from the latter part of 1931 until the devaluation of the United States dollar in 1933, a premium in Canadian dollars would be paid by a Canadian importer on any purchases in the United States during this period. As prices of United States manufactures would thus be higher to Canadian buyers by the amount of the premium which would have been paid for American funds, the indices for United States prices may be re-calculated to show the trend in Canadian funds. On the other hand, the pound sterling was at a discount in Canadian funds through much this same period and prices of English goods, in Canadian funds, were less than home market prices at par of exchange by the extent of the depreciation of the pound sterling. The following table shows the relative movements of Canadian, United States and English prices after allowance has been made for exchange fluctuations.

25. INDEX NUMBERS OF WHOLESALE PRICES OF TEXTILE PRODUCTS (EXPRESSED IN CANADIAN FUNDS)

(1929=100)

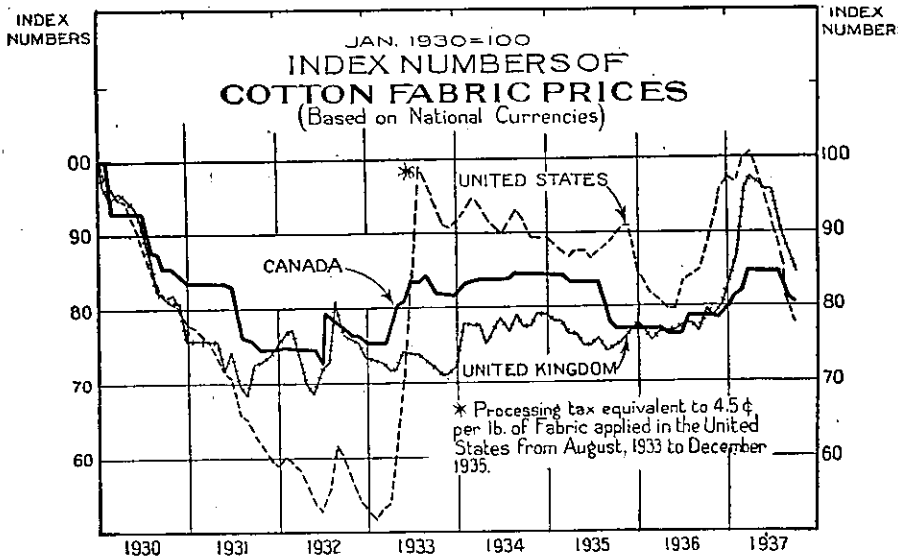
Year	Cotton Fabrics			Wool Fabrics			Silk Fabrics	
	Canada	United States	United Kingdom	Canada	United States	United Kingdom	Canada	United States
		(a)			(b)			
1929	100·0	100·0	100·0	100·0	100·0	100·0	100·0	100·0
1930	90·4	85·7	82·0	85·7	90·2	80·0	86·4	84·7
1931	79·5	69·8	67·6	77·2	72·7	64·6	78·2	64·3
1932	75·1	60·9	58·2	73·1	67·0	53·9	76·5	52·5
1933	79·2	78·9	63·1	77·1	77·6	61·6	68·5	58·2
1934	83·1	86·7	76·5	83·1	80·7	78·5	67·9	55·1
1935	80·9	84·8	72·7	76·1	78·2	75·0	67·8	56·8
1936	76·9	80·9	74·3	81·7	84·9	84·2	67·8	55·2
April, 1937	84·0	95·7	88·0	89·1	95·5	87·0	67·3	58·9
October, 1937	79·3	73·5	78·7	86·4	92·1	83·0	67·3	60·6

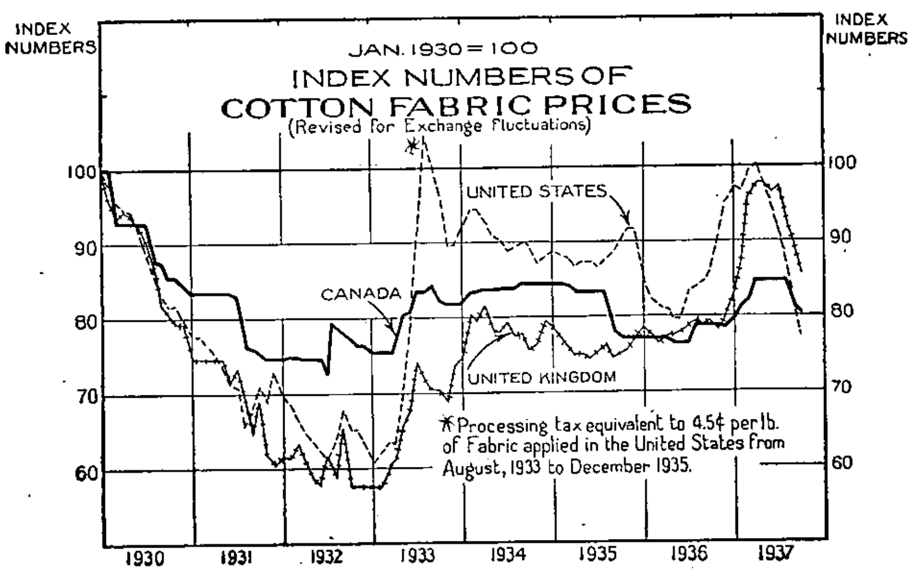
(a) Cotton Goods.
(b) Woollen and Worsted Goods.

Whereas the price indices for the United States showed the largest declines by 1932 when the domestic currencies were used, the United Kingdom prices fall to the greatest extent when the indices are expressed in Canadian funds.

The movements in prices which have just been traced are shown graphically for cotton fabrics in the accompanying charts. The drastic decline in the prices of cotton goods which has occurred since March, 1937 was initiated by the very sharp fall in the price of raw cotton. The average price of middling cotton in New York rose from about 12 cents a pound in the Fall of 1936 to 14½ cents in March, 1937. Favourable weather reports with prospects of a bumper crop of cotton led to a decline in the cotton prices on American markets which continued into the Fall. The average price of middling cotton in New York was 9·0 cents in September and 8·4 cents in October, 1937.

The trend of prices as revealed by the indices in national currencies and in Canadian funds does not, of course, indicate the actual prices of textiles in Canada compared with those in the United States and the United Kingdom. The basic price is different in each case, it being the home price in each country in 1929. It may be taken for granted, according to the evidence before me, that in 1929 prices for individual textile products were higher in Canada in most protected lines to the extent of the tariff charges and cost of freight, insurance, etc. But if we assume for the moment that the differential in 1929 between prices of domestic and import goods was a reasonable one, we see how the advantage to the Canadian manufacturer grew greater through the depression years with the increasing divergence between the index of Canadian prices and those for the United Kingdom and the United States. By 1932, the general level of cotton fabric prices in Canada had declined only 25 per cent, but in national currencies the index for the United States had fallen 45 per cent and for the United Kingdom almost 29 per cent. In Canadian funds, United Kingdom cotton prices had dropped more than 40 per cent by 1932.





We may carry this analysis one step further by comparing the prices of certain lines of Canadian manufacture with similar goods from the United Kingdom and the United States as shown in the exhibits prepared by Mr. Hooper.

CANADIAN SELLING PRICES OF COTTON YARNS AS A PERCENTAGE OF UNITED KINGDOM SELLING PRICES (IN CANADIAN FUNDS)

—	Warp Yarns (Exhibit 858)	Hosiery Yarns (Exhibit 857)
June, 1930	132	105
January, 1931	149	111
June, 1931	150	110
November, 1932	187	137
May, 1936	155	121

Selling prices of Canadian warp yarns were 32 per cent higher than similar United Kingdom yarns in June, 1930, but the difference was 50 per cent a year later after the imposition of higher duties and the valuation of the pound sterling for customs purposes. Hosiery yarns, on which the duties were not changed in 1930, but on which special currency duties applied during the depreciation of the pound, were 5 per cent higher in Canada in June, 1930, but were 37 per cent higher in November, 1932, and still 21 per cent higher in May, 1936.

Although duties applicable to cotton warp yarns after September, 1930, were higher than those on hosiery yarns, the Canadian prices for these products moved together in comparison with United States prices. Canadian prices of hosiery yarns were 23 per cent higher than United States prices in June, 1930, and warp yarns were 27 per cent higher. By October, 1930, hosiery yarns were 29 per cent higher in price, and warp yarns, 38 per cent. The rapid advance in United States prices in 1933 and 1934, due to the New Deal policies, including the processing tax, carried prices above the Canadian level, but in April, 1936, the Canadian prices were again higher by 13 per cent for hosiery yarns and 14 per cent for warp yarns.

CANADIAN SELLING PRICES OF COTTON YARNS AS A PERCENTAGE OF UNITED STATES SELLING PRICES (IN CANADIAN FUNDS)

—	Warp Yarns (Exhibit 824)	Hosiery Yarns (Exhibit 828)
June, 1930	127	123
October, 1930	138	129
September, 1932	136	135
August, 1933	87	85
April, 1936	114	113

Similar price movements are shown by the exhibits relating to cotton fabrics.

CANADIAN SELLING PRICES OF COTTON FABRICS AS A PERCENTAGE OF UNITED STATES SELLING PRICES (IN CANADIAN FUNDS)

—	Vat Prints (Exhibit 839)	Bleached Fabrics (Exhibit 842)
July, 1930	124	136
February, 1931	128	134
June, 1932	149	156
December, 1933	123	100
January, 1936	121	107

The foregoing analysis of Canadian, United Kingdom and United States prices has shown that throughout the depression Canadian prices were maintained at a higher level than those which would have prevailed had imports been free to enter under the tariff duties prevailing prior to September, 1930, and without the restrictive effects of currency valuations and special customs appraisals. I think that the effect of customs duties and appraisals may be measured by saying that, without these changes, prices of textile products in Canada would probably have fallen from 40 to 50 per cent by 1932 from the 1929 level, instead of only 25 to 30 per cent, on the whole.

There is no doubt that a 50 per cent decline in textile prices during the depression must appear desirable when considered from the viewpoint of meeting the decline in export prices and in the purchasing power of the population. But the depression was, of course, a period of general unemployment. The question then arises of the extent to which, in the light of the financial results obtained by the textile industry as reviewed in Chapter VI, prices of textile products might have been further reduced without aggravating the unemployment situation; because an increase in the number of unemployed would have resulted, among other things, in a corresponding decline in the national income. It is argued against the theory of a further possible reduction in prices in Canada during the depression years, that the period of low prices in the United States culminated in the setting up of the N.R.A.—intended, partly at least, to save industry from collapse—and a consequent sharp rise in prices. This question of reduced prices and of unemployment is also bound up with one of the basic objects of this inquiry, that is, "the extent to which the employer can reasonably and properly be expected to maintain employment over periods of temporary difficulty."

During the period now under review, a relationship is found to exist between the figures of employment and the share of the domestic market enjoyed by Canadian producers at different times. This share was larger after September, 1930, than it had been before. On the other hand, the market itself was smaller during the second part of this period, because the great reduction in the national income after 1929 decreased the demand for textile products. Where a large share of the market was already filled by Canadian producers before the tariff increase, the smaller demand led to a curtailment of output by Canadian mills. This was the case in respect to cotton goods, and, in a lesser degree, to knit goods.

In the woollen and silk branches of the industry an actual increase in total employment was recorded in 1931 and further advances were made in following years. Although the demand for woollen goods declined during the depression and, consequently, the total consumption of wool piece goods, such a large part of the Canadian market was diverted to domestic producers as a result of the tariff changes of September, 1930, that even the curtailed market required a larger domestic production than before. The same factor was operative in the case of the silk industry, but, in addition, the growing demand for rayon products widened a newly-established field of manufacturing and led to greater employment. The effect of these two factors on employment in the different branches of the textile industry is shown by the index numbers of employment in Table 26. Further details of the number of workers in the industry will be found in Chapter IX. It may be of interest to point out here that between 1929 and 1936 the population of the Dominion increased by one million persons according to figures given in the Canada Year Book.

26. INDEX NUMBERS OF EMPLOYMENT IN THE PRINCIPAL BRANCHES OF THE TEXTILE INDUSTRY, 1929 TO 1937

(1929=100)

Year	Cotton Yarn and Cloth *(a)*	Woollen Yarn and Cloth *(b)*	Knit Goods and Hosiery *(b)*	Silk and Artificial Silk Weavers *(b)*	Artificial Silk Yarn Producers *(b)*
1929	100·0	100·0	100·0	100·0	100·0
1930	86·9	91·2	94·9	117·9	131·3
1931	82·6	102·6	91·8	129·1	157·9
1932	80·7	113·0	91·1	155·4	166·2
1933	77·1	132·4	88·2	173·7	182·6
1934	90·7	141·4	93·8	200·8	215·7
1935	91·3	149·6	96·8	219·9	241·3
1936	96·4	158·0	102·0	204·5	262·2
1937*	105·8	164·5	103·9	211·9	271·6

* Preliminary.
(a) Based on Monthly Employment Reports—Dominion Bureau of Statistics.
(b) Based on Census of Industry Returns—Dominion Bureau of Statistics.

DIVISION OF CANADIAN MARKET

The relative shares of the domestic market for the principal groups of textile products held by Canadian and foreign manufacturers may be estimated by correlating the census of production statistics and the export and import trade returns. As this is far from being the simple matter that it would at first appear, the results of any study of consumption trends in Canada must necessarily be viewed merely as approximations to the actual movements. One of the most serious difficulties encountered in such a study is the change in the manner of reporting quantities of imports for many textile products. Not only are classifications changed with changes in the tariff, but beginning in the fiscal year 1931-32, a number of items which had previously been reported in yards have since been reported by weight. As the official returns provide no conversion factors for relating yardage and poundage figures, it was necessary to develop various methods for deriving a continuous series of trade figures. In many respects the census of production statistics are not prepared on the same basis of classification as the trade returns, making it difficult to relate the figures to the same items. In addition, production statistics are generally "gross" figures, i.e., they contain certain duplications of output, due to products being transferred from one factory to another in the course of manufacture. For these and other reasons the figures presented in the tables which follow must, as has already been stated, be taken only as approximately correct.

Cotton Fabrics

Cotton fabrics probably serve a wider range of uses than any of the other textiles. Their consumption is thus influenced not only by changes in consumer demand, but also by changes in industrial requirements. The demands of industry for cotton goods are influenced not only by the trend of prosperity but also by the development of substitute products. The available statistics on production and imports of cotton fabrics in Canada are not sufficiently detailed to permit the separate determination of changes in consumer demand and in industrial requirements. The general tables which follow show the trend of apparent consumption in Canada during the past decade, with separate tables for grey or unbleached fabrics, bleached or white fabrics, and printed, dyed or coloured fabrics. Between 1926 and 1928 the production of cotton fabrics in Canada, after eliminating duplications of output within the industry, advanced from almost 216 million yards to more than 240 million yards. Imports also increased and the proportion of the domestic market held by Canadian producers declined slightly from 69·4 per cent in 1926 to 67·7 per cent in 1928. In 1929, there was a marked decline in the production of cotton fabrics by Canadian mills, particularly in grey goods and printed, dyed and coloured fabrics. Total imports in 1929 were slightly less than in the preceding year, but there were increases in the imports of grey goods and finished fabrics; as a result, the proportion of the domestic market held by the Canadian mills fell still further to 64·6 per cent in 1929.

The tariff changes in 1930 were followed by a reversal of the trend, although the total production of cotton fabrics continued to decline until 1931 and imports fell off until 1932. The share of the domestic market held by the Canadian mills rose to 72·6 per cent in 1931 and was maintained at 76·9 per cent in 1932 and 1933. In recent years, the proportion has fallen somewhat but remains higher than in the pre-depression period. The revival in trade in 1936 and 1937 led to a larger demand for imported fabrics, as well as for the products of domestic mills.

Canadian mills have shown an increasing ability to produce finished cotton fabrics and their share of the domestic market for printed, dyed or coloured fabrics is considerably larger than in the years prior to 1929. The report of the United Kingdom Department of Overseas Trade for 1935-36 contains the following observation on the Canadian market:—

"Last year the writer stated what is still true—that it is impossible to ignore the fact that the domestic mills are each season becoming more efficient and producing qualities and weaves which were formerly bought from United Kingdom manufacturers."

The per capita consumption of cotton fabrics is now considerably lower than in the pre-depression period. This is particularly true in the case of bleached or white fabrics and printed, dyed or coloured fabrics. The wider uses now being made of rayon fabrics has undoubtedly been partly responsible for the declining consumption of cotton goods. Nevertheless, as some of the cotton mills are now substantial producers of rayon fabrics, their position has not as yet been seriously affected by the shift in consumer demand for textiles.

27. APPARENT CANADIAN CONSUMPTION OF COTTON FABRICS
1926 to 1936

Grey, Bleached and Coloured, Total

Year	Production	Imports	Apparent Canadian Consumption	Percentage Canadian Production of Consumption	Apparent Consumption Per Capita
	(000) Yds.	(000) Yds.	(000) Yds.	%	Yds.
1926	215,819	95,153	310,972	69·4	32·90
1927	229,300	113,953	343,253	66·8	35·62
1928	241,762	115,372	357,134	67·7	36·31
1929	209,724	114,915	324,639	64·6	32·37
1930	184,972	92,070	277,042	66·8	27·14
1931	180,155	68,080	248,235	72·6	23·92
1932	186,879	56,231	243,110	76·9	23·14
1933	218,896	65,904	284,800	76·9	26·66
1934	229,305	78,296	307,601	74·6	28·39
1935	209,590	73,719	283,309	74·0	25·88
1936*	226,105	93,046	319,151	70·8	28·94

Cotton Piece Goods—Grey

Year	Production	Imports	Apparent Canadian Consumption	Percentage Canadian Production of Consumption	Apparent Consumption Per Capita
1926	66,328	19,229	85,557	77·5	9·05
1927	65,408	29,224	94,632	69·1	9·82
1928	65,468	34,720	100,188	65·3	10·19
1929	46,768	40,203	86,971	53·8	8·67
1930	36,591	31,516	68,107	53·7	6,67
1931	56,696	19,949	76,645	74·0	7·39
1932	63,083	15,828	78,911	79·9	7·51
1933	71,327	24,623	96,050	74·3	8·99
1934	69,663	29,549	99,212	70·2	9·16
1935	63,036	23,807	86,843	72·6	7·93
1936*	74,332	32,557	106,909	69·5	9·69

Cotton Piece Goods—Bleached or White

Year	Production	Imports	Apparent Canadian Consumption	Percentage Canadian Production of Consumption	Apparent Consumption Per Capita
1926	45,312	26,690	72,002	62·9	7·61
1927	43,686	33,499	77,185	56·6	8·01
1928	41,457	29,960	71,417	58·0	7·26
1929	52,796	21,140	73,936	71·4	7·37
1930	58,716	17,119	75,835	77·4	7·43
1931	34,011	11,424	45,435	74·9	4·38
1932	30,599	9,408	40,007	76·5	3·81
1933	34,609	12,960	45,569	72·7	4·45
1934	38,159	14,804	49,963	76·4	4·61
1935	32,255	14,089	46,344	69·6	4·23
1936*	31,519	20,629	52,148	60·4	4·73

* Preliminary.

27. APPARENT CANADIAN CONSUMPTION OF COTTON FABRICS
1926 to 1936—*Concluded*

COTTON PIECE GOODS—PRINTED, DYED AND COLOURED

Year	Production	Imports	Apparent Canadian Consumption	Percentage Canadian Production of Consumption	Apparent Consumption Per Capita
	(000) Yds.	(000) Yds.	(000) Yds.	%	Yds.
1926	104,179	49,234	153,413	67·9	16·23
1927	120,206	51,230	171,436	70·1	17·79
1928	134,837	50,691	185,528	72·7	18·86
1929	110,160	53,574	163,734	67·3	16·33
1930	89,665	43,435	133,100	67·4	13·04
1931	89,447	36,707	126,154	70·9	12·16
1932	93,197	30,994	124,191	75·0	11·82
1933	112,960	28,320	141,280	80·0	13·23
1934	121,484	33,943	155,427	78·2	14·34
1935	114,299	35,823	150,122	76·1	13·71
1936*	120,254	39,845	160,099	75·1	14·52

* Preliminary.

It is possible to estimate the apparent consumption of cotton fabrics in Canada for 1934 and subsequent years on the basis of poundage produced and imported as the Dominion Bureau of Statistics has collected production data on a poundage basis for this period. The report of the Tariff Board on cotton fabrics under Reference 83 contains a full discussion of the relation between poundage and yardage figures for cotton fabrics and also gives the results of a special survey of the Canadian market in 1934. The Tariff Board in this report stated:—

". . . . it appears that the share of the market supplied by sales of Canadian produced grey fabrics contains a larger proportion of heavy grades of fabrics than the share of the market supplied by United Kingdom producers. This appears to be true of bleached fabrics also, while in the other divisions there appears to be little variation."

The following table presents comparable poundage figures for production and imports of cotton fabrics in the calendar years 1934 and 1936. On the basis of weight, the share of the Canadian market held by the domestic producers has declined slightly from 80·9 per cent in 1934 to 78·8 per cent in 1936. For grey and printed fabrics the proportions in 1936 were practically the same as in 1934, while an increased share on the basis of weight was held for piece dyed fabrics by Canadian producers in 1936. In the case of yarn dyed fabrics, the Canadian production formed 94·0 per cent in 1934 and 85·7 per cent of the market in 1936. A decline is also shown in the proportion for Canadian production in the case of bleached fabrics.

28. APPARENT CONSUMPTION OF COTTON FABRICS IN CANADA BY WEIGHT
1934 and 1936

—	1934 (a)		1936 (b)	
	(000) Lb.	Per cent.	(000) Lb.	Per cent.
Total Cotton Fabrics—				
Canadian Production	65,037	80·9	69,588	78·8
Imports	15,799	19·1	18,682(c)	21·2
Total	80,836	100·0	88,270	100·0
Grey Fabrics—				
Canadian Production	27,967	83·7	28,048	84·1
Imports	5,458	16·3	5,295	15·9
Total	33,425	100·0	33,343	100·0
Bleached Fabrics—				
Canadian Production	7,959	78·1	7,090	72·5
Imports	2,236	21·9	2,687	27·5
Total	10,195	100·0	9,777	100·0
Printed Fabrics—				
Canadian Production	9,998	80·8	11,098	80·7
Imports	2,375	19·2	2,655	19·3
Total	12,373	100·0	13,753	100·0
Piece Dyed Fabrics—				
Canadian Production	8,022	65·8	14,496	72·2
Imports	4,171	34·2	5,583	27·8
Total	12,193	100·0	20,079	100·0
Yarn Dyed Fabrics—				
Canadian Production	12,599	94·0	8,856	85·7
Imports	803	6·0	1,472	14·3
Total	13,402	100·0	10,328	100·0

(a) Based on Report of the Tariff Board, Ref. 83, with figures for grey fabrics revised to exclude tire fabrics.
(b) Based on a preliminary tabulation of Census of Industry returns by the Primary Textiles Institute.
(c) Including imports of cut pile fabrics and fabrics composed of yarns of counts of 100 or more.

Silk and Artificial Silk Fabrics

The tables on production and importations of artificial silk and silk fabrics, including mixtures, reveal the phenomenal growth of the domestic industry during the past decade and the virtual supplanting of importations by Canadian fabrics in the period subsequent to 1929. In the case of artificial silk and mixture fabrics the available supply consisted, during the early years given in the table, largely of artificial silk and cotton mixtures, but, with improvements in rayon manufacture, the output now consists largely of all-rayon fabrics. Between 1925 and 1930 the Canadian production of rayon and mixtures increased more than fivefold but imports increased much more in quantity, so that the proportion of the market supplied by domestic producers declined slightly.

The increase in tariff rates in September, 1930, led to an immediate curtailment of imports, and, as domestic production continued to advance, the share of the Canadian market supplied by domestic manufacturers increased from 25·0 per cent in 1930 to 40·6 per cent in 1931. Imports reached a low point in 1935 while Canadian production showed a marked advance, so that less than 8 per cent of the domestic demand was supplied by imports. In 1936, there was some increase in imports and, while Canadian production increased more in quantity, the share of the market held by domestic producers declined slightly to 87·9 per cent.

The consumption of rayon fabrics has shown a marked increase in the decade, advancing from less than one yard per capita in 1926 to 3·21 yards in 1930. The curtailment in supply through loss in imports, and the lack of purchasing power of consumers, led to some reduction in consumption until 1934.

29. APPARENT CANADIAN CONSUMPTION OF ARTIFICIAL SILK FABRICS
1926 to 1936

WOVEN FABRICS OF ARTIFICIAL SILK AND MIXTURES (Not Containing Silk)

Year	Production	Imports	Apparent Canadian Consumption	Percentage Canadian Production of Consumption	Apparent Consumption Per Capita
	(000) Yds.	(000) Yds.	(000) Yds.	Per cent	Yds.
1926	2,000	5,400	7,400	27·0	0·78
1927	3,400	7,700	11,100	30·6	1·15
1928	4,800	12,400	17,200	27·9	1·75
1929	5,300	17,851	23,151	22·9	2·31
1930	8,200	24,576	32,776	25·0	3·21
1931	10,115	14,812	24,927	40·6	2·40
1932	13,696	6,948	20,644	66·3	1·96
1933	22,173	4,813	26,986	82·2	2·53
1934	30,966	4,701	35,667	86·8	3·29
1935	37,149	2,921	40,069	92·7	3·66
1936*	41,800	5,756	47,566	87·9	4·31

* Preliminary.

The growth in consumption of rayon fabrics has been paralleled, in part, by a decline in the use of silk piece goods. This change in consumption habits has not been reflected in the figures for Canadian production until the last few years, as the loss in imports maintained a market for Canadian products. Production increased from 1,200,000 yards in 1926 to more than 8,000,000 yards in 1930. Imports, on the other hand, were at a high point in 1927 with about 26 million yards but declined to less than 14 million in 1930, and have continued at about 2 million yards during recent years. The share of the market held by Canadian producers has thus become greater, until more than 80 per cent of the demand is met by domestic manufacturers. Per capita consumption, on the other hand, has fallen from 2·89 yards in 1927, to 1·05 yards in 1936.

30. APPARENT CANADIAN CONSUMPTION OF SILK FABRICS
1926 to 1936

WOVEN FABRICS OF SILK AND SILK MIXTURES

Year	Production	Imports	Apparent Canadian Consumption	Percentage Canadian Production of Consumption	Apparent Consumption Per Capita
	(000) Yds.	(000) Yds.	(000) Yds.	Per cent	Yds.
1926	1,206	22,000	23,206	5·2	2·46
1927	1,858	26,000	27,858	6·7	2·89
1928	2,704	25,000	27,704	9·8	2·81
1929	4,549	21,274	25,823	17·6	2·57
1930	8,128	13,898	22,026	36·9	2·18
1931	11,527	8,244	19,771	58·3	1·91
1932	13,936	2,942	16,878	82·6	1·61
1933	12,553	1,982	14,535	86·4	1·30
1934	12,878	1,984	14,862	86·6	1·37
1935	14,098	1,996	16,094	87·6	1·47
1936*	9,607	2,049	11,655	82·4	1·05

* Preliminary.

Wool Fabrics

The wool cloth industry, as was pointed out in Chapter II, has had a chequered career in Canada. Developing out of a domestic industry into factory manufacture, it was unable to compete with the more advanced English industry and lost ground until revived by the stimulus of war demands. Table 31 gives the significant figures for production and imports in the post-war periods. The apparent maintenance of Canadian production of wool fabrics from 1926 to 1929 is due to the increasing production of industrial products in the pre-depression period and the figures conceal, to some extent, a decline in the production of piece goods in this period.

The effect of the tariff changes of 1930 is strikingly revealed by the figures for 1931 and subsequent years. Production, which had declined to about 6·5 million yards in 1930, advanced to 9·7 million yards in the following year and continued to increase thereafter. Imports, however, declined 46 per cent in 1931 from 1930 and continued to fall until 1933. It is likely that there would have been some réduction in imports if the tariff rates had been maintained as there had been a decline of more than 4·5 million yards between 1929 and 1930, but the decline would almost certainly have been smaller under lower duties.

In spite of the increased production of Canadian wool fabrics, the available supply of goods dropped from 2·43 yards per capita in 1930 to 1·84 yards in 1932. Although there has been some increase in consumption in recent years the average of 2·59 yards for 1936 was well below the pre-depression level.

Canadian producers were providing about one-quarter of the supply of wool fabrics in the pre-depression period, but, after the curtailment in imports, their share rose to more than one-half and in 1935 and 1936 was almost sixty per cent.

31. APPARENT CANADIAN CONSUMPTION OF WOOL FABRICS
1921 to 1935

Year	Production	Imports	Apparent Canadian Consumption	Percentage Canadian Production of Consumption	Apparent Consumption Per Capita
	(000) Yds.	(000) Yds.	(000) Yds.	Per cent	Yds.
1921	7,599	11,578	19,177	39·6	2·18
1922	8,201	21,838	30,039	27·3	3·37
1923	8,398	24,345	32,833	25·6	3·64
1924	7,979	27,809	35,788	22·3	2·91
1925	8,590	22,713	31,303	27·4	3·37
1926	8,092	26,700	34,792	23·3	3·68
1927	8,683	25,991	34,474	25·2	3·58
1928	9,102	25,620	34,722	26·2	3·53
1929	8,815	22,774	31,589	27·9	3·15
1930	6,523	18,240	24,763	26·3	2·43
1931	9,742	9,840	19,582	49·7	1·89
1932	11,123	8,218	19,341	57·5	1·84
1933	14,228	8,144	22,372	63·6	2·09
1934	14,270	10,782	25,082	57·0	2·31
1935	15,560	10,940	26,500	58·7	2·42
1936	16,518	12,020	28,538	57·9	2·59

Silk and Artificial Silk Hosiery

Canadian manufacturers of real silk hosiery were supplying all but a very small part of the domestic requirements in the period prior to 1930, and the effect of the tariff change in that year was practically to eliminate the small remaining volume of imports. On the other hand, Canadian producers continued to develop their export trade, until by 1936 exports formed more than 18 per cent of the Canadian production. The apparent consumption of real silk hosiery declined during the first years of the depression, but has since recovered and is now considerably higher than in 1929. The per capita measure is, of course, not altogether a satisfactory indication, as the bulk of the silk hosiery is ladies' wear.

32. APPARENT CANADIAN CONSUMPTION OF SILK HOSIERY

Year	Production	Imports	Total	Exports	Apparent Canadian consumption	Percentage Canadian production of consumption	Percentage of Canadian production exported	Apparent consumption per Capita
	(000) Doz. Prs.	(000) Doz. Prs.	(000) Doz. Prs.	(000) Doz. Prs.	(000) Doz. Prs.	%	%	Pairs
1929	1,345	76	1,421	57	1,364	98·6	4·2	1·63
1930	1,396	40	1,436	76	1,360	102·7	5·5	1·60
1931	1,270	5	1,275	68	1,207	105·3	5·4	1·40
1932	1,471	2	1,473	129	1,344	109·4	8·8	1·54
1933	1,657	1	1,658	178	1,480	111·9	10·7	1·66
1934	1,818	1	1,819	263	1,556	116·9	14·5	1·72
1935	2,087	1	2,088	304	1,784	117·0	14·6	1·96
1936	2,347	1	2,348	432	1,916	122·5	18·4	2·08

The increasing popularity of real silk hosiery has served to limit the demand for the synthetic product, and the apparent consumption of artificial silk hosiery in Canada has declined steadily. Imports formed more than 40 per cent of the available supply in 1929 and 1930, but were practically excluded after the increase in tariff rates. To what extent cheap rayon hosiery would have met a domestic demand cannot be estimated, but there is some likelihood that a market would have continued for low-priced imported rayon hosiery which was not served by the higher priced domestic products.

33. APPARENT CANADIAN CONSUMPTION OF ARTIFICIAL SILK HOSIERY

Year	Production	Imports	Total	Exports	Apparent Canadian consumption	Percentage Canadian production of consumption	Percentage of Canadian production exported	Apparent consumption per Capita
	(000) Doz. Prs.	(000) Doz. Prs.	(000) Doz. Prs.	(000) Doz. Prs.	(000) Doz. Prs.	%	%	Pairs
1929	797	504	1,301	-	1,301	61·3	-	1·56
1930	640	567	1,207	-	1,207	53·0	-	1·42
1931	879	11	890	-	890	98·8	-	1·03
1932	906	3	909	-	909	99·7	-	1·04
1933	699	1	700	-	700	99·9	-	0·79
1934	659	1	660	-	660	99·9	-	0·73
1935	688	1	689	-	689	99·9	-	0·75
1936	648	1	649	-	649	99·9	-	0·71

Woollen and Cotton Hosiery

In the case of wool and cotton hosiery, a considerable part of the domestic demand was met by imported goods prior to 1931; the imports of cotton hosiery being proportionately greater than those of wool. Imports dwindled from 1931 onwards with much greater reduction in imports of cotton hosiery than of wool. Approximately 95 per cent of the available supply of wool hosiery now comes from Canadian mills, whilst practically all the cotton hosiery used in Canada is of domestic manufacture.

34. APPARENT CANADIAN CONSUMPTION OF WOOLLEN HOSIERY

Year	Production	Imports	Total	Less exports	Apparent Canadian consumption	Percentage Canadian production of consumption	Apparent consumption per Capita
	(000) Doz. Prs.	(000) Doz. Prs.	(000) Doz. Prs.	(000) Doz. Prs.	(000) Doz. Prs.	%	Pairs
1929	1,296	565	1,861	2	1,859	69·7	2·22
1930	1,158	496	1,654	2	1,652	70·1	1·94
1931	1,418	203	1,621	2	1,619	87·6	1·87
1932	1,474	106	1,580	2	1,578	93·4	1·80
1933	1,590	87	1,677	4	1,673	95·0	1·88
1934	1,573	82	1,656	10	1,646	95·6	1·82
1935	1,585	97	1,681	8	1,673	94·7	1·83
1936	1,734	108	1,842	9	1,833	94·6	1·99

35. APPARENT CANADIAN CONSUMPTION OF COTTON HOSIERY

Year	Production	Imports	Total	Less exports	Apparent Canadian consumption	Percentage Canadian production of consumption	Apparent consumption per Capita
	(000) Doz. Prs.	(000) Doz. Prs.	(000) Doz. Prs.	(000) Doz. Prs.	(000) Doz. Prs.	%	Pairs
1929	846	665	1,511	5	1,506	56·1	1·80
1930	762	715	1,477	6	1,471	51·8	1·73
1931	1,456	14	1,471	6	1,465	99·4	1·69
1932	1,271	8	1,279	7	1,272	100·0	1·45
1933	1,465	2	1,468	11	1,457	100·6	1·64
1934	1,733	2	1,735	29	1,707	101·5	1·89
1935	1,828	1	1,829	25	1,805	101·3	1·98
1936	1,822	2	1,824	26	1,798	101·3	1·95

Knit Goods

Owing to the wide variety of knit goods articles, other than hosiery, and the lack of sufficient detail as to products in the census and trade returns, it is not possible to determine the relative shares of the domestic market for knit goods held by Canadian and foreign manufacturers. The following figures for underwear, derived from the Canadian census reports and the trade returns for the United Kingdom and the United States, serve to indicate partially the trend of consumption and the share of the market held by Canadian producers during recent years. It must be borne in mind that the demand for knit goods, as for other clothing, is influenced by changes in fashion and modes of living. Lighter articles of clothing are becoming increasingly popular with improvements in heating and methods of transportation.

PRODUCTION AND IMPORTS OF UNDERWEAR, 1926 to 1935

Wool and Wool Mixed Underwear

—	Production (a)	Imports from United Kingdom (b)
	doz.	doz.
1929	259,926	29,300
1930	227,925	24,216
1931	231,569	20,564
1932	199,987	19,627
1933	213,447	17,230
1934	198,186	17,146
1935	194,906	24,108
1936	246,471	33,107

Cotton and Cotton Mixed Underwear

—	Production (a)	Imports from United Kingdom (b)	Imports from United States (c)
	doz.	doz.	doz.
1929	1,067,553	2,125	60,919
1930	846,840	1,906	52,563
1931	679,654	3,205	32,947
1932	760,521	10,534	8,270
1933	899,263	10,430	3,543
1934	976,453	8,214	1,845
1935	1,001,373	11,551	1,804
1936	1,093,586	20,518	4,502

Artificial Silk Underwear

—	Production (a)	Imports from United States (c)
	doz.	doz.
1929	325,492	7,104
1930	372,242	4,671
1931	329,353	4,480
1932	286,031	171
1933	300,648	130
1934	313,898	229
1935	291,713	314
1936	271,561	374

(a) Two single garments have been considered as one combination garment in arriving at the totals.
(b) As reported in the United Kingdom Trade returns.
(c) As reported in the United States Trade returns.

Exports of Manufactures of the Textile Industry

Exports of textile manufactures form a very small part of Canada's total export trade, although the exports of certain textile products have been assuming greater importance in recent years. Only three textile manufactures were listed among the eighty-six leading export commodities in the fiscal year 1936-37, of which the largest, socks and stockings, ranked 52nd. In the same year exports of raw and manufactured fibres and textile products constituted 1·2 per cent of Canada's exports. In addition, manufactured textile products enter into the production of some of the leading exports, such as automobiles, rubber tires and rubber footwear.

Prior to the Great War exports of textile manufactures consisted largely of cordage, rope and twine (including binder twine) and cottons. Exports of cotton piece goods, as was pointed out in Chapter II, were made to China from 1885 to the early years of the present century, and considerable shipments were made to the Antipodes in one or two years prior to the Great War. Substantial exports of binder twine, chiefly to the United States, commenced about 1904. In the fiscal year 1913-14 the following exports of textile manufactures were recorded:—

Cotton and its products	$130,196
Silk and its products	26,880
Woollen manufactures	81,555
Binder twine	453,530
Cordage, rope and twine	60,127

During the war and immediate post-war years, textile exports advanced both in value and quantity as considerable shipments arising out of war-time demands were made to Europe and the United States. The collapse of world prices in 1921-22 and the cessation of war-time demands caused the disappearance of the greater part of this foreign trade, which reached its peak in 1919-20, when the following exports were recorded:—

Cotton duck	$ 949,263
Other cotton fabrics	1,734,010
Silk and its products	176,461
Woollens	5,481,202
Binder twine	5,530,908
Cordage, rope and twine	179,534

The bulk of the cotton fabric and woollen shipments in this year was made to Greece and Roumania as a result of credits advanced to these countries, while the exports of binder twine were principally to the United States and Argentina.

In the period from 1923 on exports of textile manufactures were somewhat larger in volume than in the immediate pre-war period and, due to the higher price level, considerably greater in value. Exports of socks and stockings were recorded separately for the first time in the fiscal year 1926-27 when 29,716 dozen pairs, valued at $173,260, were reported. The exports of these articles, and particularly of silk stockings, increased thereafter and have now become the largest single textile export from Canada.

Statistics of exports of textile products were included in the questionnaires submitted by manufacturers to the Commission. The relative importance of exports in the several branches of the industry may be indicated by relating the value of exports to the total sales of the companies reporting for the year 1935.

EXPORT SALES AS PERCENTAGE OF TOTAL SALES OF TEXTILE MANUFACTURERS, 1935

Group	p.c.
Primary Cottons	2·10
Woollens	0·01
Papermaker's felts	11·00
Silk	2·80
Artificial Silk	(1)
Hosiery	12·30
Knit Goods	0·80
Carpets	(1)

(1) Negligible.

The principal exports of textile manufactures during the fiscal year 1935-36 are shown in the Trade of Canada as follows:—

36. EXPORTS OF CERTAIN TEXTILE MANUFACTURES, FISCAL YEAR 1935-1936

Commodities	Quantity	Value
Silk Socks and Stockings—	doz. pr.	$
Total	331,397	2,118,917
United Kingdom	47,843	327,304
Other British Countries	262,961	1,655,936
Other Countries	20,593	135,677
Binder Twine—	cwt.	
Total	186,826	1,077,961
United Kingdom	67,737	392,227
Other British Countries	11,261	61,329
Other Countries	107,828	624,405
Cotton Fabrics—	yds.	
Total	3,040,464	994,731
United Kingdom	68,761	10,243
Other British Countries	2,408,339	825,983
Other Countries	563,364	158,505
Artificial Silk Manufactures, n.o.p.—		
Total		510,745
United Kingdom		130,425
Other British Countries		374,228
Other Countries		6,092
Felt, Manufactures of—		
Total		336,464
United Kingdom		142,791
Other British Countries		109,524
Other Countries		84,149
Silk Manufactures, n.o.p.—		
Total		301,326
United Kingdom		55,729
Other British Countries		130,984
Other Countries		114,613
Cotton Ducks—	yds.	
Total	352,121	141,739
United Kingdom	101,625	41,934
Other British Countries	148,910	64,295
Other Countries	101,586	35,510
Cotton Underwear—		
Total		106,635
United Kingdom		29,117
Other British Countries		71,320
Other Countries		6,198
Cordage, Rope and Twine—		
Total		81,946
United Kingdom		15,337
Other British Countries		30,905
Other Countries		35,704
Artificial Silk Underwear—		
Total		78,631
United Kingdom		249
Other British Countries		77,567
Other Countries		815
Wool Fabrics—	yds.	
Total	20,994	24,990
United Kingdom	1,019	1,254
Other British Countries	11,483	12,525
Other Countries	9,492	11,211
Wool Underwear—		
Total		11,039
United Kingdom		
Other British Countries		9,751
Other Countries		1,288

CHAPTER VI

INVESTMENT—PROFITS—COSTS

It is of importance to the Government of Canada and to the public that all facts which it is reasonably possible to ascertain concerning the investment represented in the textile industry, as well as the industry's true profits and costs of production, should be made known on the occasion of this inquiry. The Order in Council calls for this. Moreover, it is, in my opinion, equally important, looking to the future, that the affairs of each member of the industry should be so regulated as to make information of this character available from time to time, and at fairly frequent intervals, to all concerned. If this broad statement should require any reservation, or qualification, from the point of view of reasonableness or practicability, the necessary observations will be made as I proceed.

It is the fact that the Canadian textile industry enjoys, and has enjoyed for many years, the advantage of a protective tariff which makes it accountable to the community for the condition of its affairs. The community, having accepted the sacrifice of the tax imposed upon it for the industry's benefit, has the consequent right to know what is going on under the regime thereby created presumably in the interest of the nation. It will be well then to begin this chapter by a statement showing the investment in the textile industry. This statement cannot be an altogether complete one, nor can it be formulated in a manner which will please everybody. It cannot be complete, because, in so far as the Commission auditors have been able to conduct their probe, it affects only the reporting companies, one hundred and fifty in number, who, however, comprise about eighty per cent of the industry, on the basis of the capital employed. It cannot please all concerned because different methods may plausibly be advanced, and were advanced, for arriving at values. On the whole, I am convinced that the lines followed by the Commission auditors lead to more justifiable results than the others suggested, certain errors which appeared in some of the exhibits filed having been rectified while the Commission was still sitting.

Many of the companies brought forward statements basing the value of their "investment" on appraisals made, at some time or another, of their properties and equipment. But on the part of the Commission, no attempt was made to obtain any such expert valuation of assets. Whatever value might have been attached to such a valuation, and I shall discuss that later, it would, of course, have been practically impossible of attainment, as it would have necessitated the making of an appraisal in the case of each company's assets. The Commission auditors presented statements showing the "capital employed" in the reporting companies from year to year, beginning with the year 1926. The Dominion Textile Company is the only company which brought accountants before me to place a value upon its investment and to submit to examination on their method of valuation. In dealing with this company's presentation, the Commission auditors took exception to a certain item represented by "goodwill" and to appraisals placing higher values on assets at certain times. These matters will be gone into. In so far as this company is concerned, the statements filed on both sides are available for reference in case of need, and later on I shall state the respective results arrived at.

Following then, the methods of accounting to which I have alluded and which impressed me as fair, the Commission auditors find that the total capital employed by all the reporting companies in the financial year 1935-36 was **$146,873,160.50.**

On the other hand, Mr. Kellock in his factum states the "capital employed" by the whole of the textile companies to be $237,000,000 (in round figures) according to the Census of Industry returns for the calendar year 1934.

In comparing these two sets of figures, two points of distinction must be borne in mind: (1) the auditors' figures are founded upon the actual moneys or other tangible values invested in each company as capital with the accretions to this capital derived from earnings, while the Census return made by each company is, under the heading "capital employed," a valuation by the company of its land, buildings, fixtures, machinery, inventories of stocks, etc.; and (2) the Census returns cover the whole of the industry, while the auditors' figures have reference only to the one hundred and fifty companies which reported to the Commission:

In order to arrive at a. closer approximation of the two valuations of "capital employed," I have obtained the Census of Industry returns for the year 1935. With the help of these it is now possible to furnish the following tabulation:—

(1) "Capital employed" by the 150 reporting companies according to auditors' estimate	$146,873,160.50
(2) "Capital employed" by these same 150 companies according to Census of Industry returns for 1935	185,366,792.00
(3) "Capital employed" by all companies in Canada according to these Census returns............................	232,973,377.00

It should be stated here, to avoid possible misunderstanding, that all the foregoing figures have reference only to the primary textile industry, the object of this inquiry, to the exclusion of the needle trades comprised in the secondary textile industry and which also make census returns not included in this tabulation.

I shall now discuss as briefly as possible the facts relating to the incorporation and the development of the Dominion Textile Company. I do this because, as I have said, this Company is the only one that brought its own accountants before me to take issue with certain of the findings of the Commission accountants, and also because, on the one hand, this Company occupies an exceptionally important place in the Canadian textile industry, and, on the other hand, its financial record reveals some of the practices followed in making up the total investment in companies, which the Commission accountants consider objectionable.

(Before proceeding, I wish to say here parenthetically that Counsel for the Commission and the auditors advise me that in their work in gathering information covering the Dominion Textile Company, their task was facilitated in every way by the courteous assistance which they received from the Company's executive heads and office officials. Without this co-operation, the work of the Commission experts would have been much more arduous and more protracted than it was.)

In 1904 there were, among the textile companies operating in Canada, four named: (1) Dominion Cotton Mills Company Limited; (2) Merchants Cotton Company Limited; (3) Montmorency Cotton Mills Company Limited and (4) Colonial Bleaching and Printing Company Limited. In that year a syndicate of sixteen persons was formed for the purpose of acquiring a majority of the capital stock in each of these four companies and of incorporating a new company to be known as the Dominion Textile Company Limited. The shares of the old companies to be acquired by the syndicate were to become eventually the property of the new company. It was intended that, this transaction being completed, the new company would endeavour to acquire the remaining outstanding shares in the old companies, would take over their physical assets, and would operate as one company in the place of the four.

The Royal Trust Company was appointed to act as trustee for the due carrying out of the transaction among the parties concerned. The writing of a full account of what occurred would take up more time and more space in this report than should properly be given to it. It is set out fully in exhibits numbered 330 to 336 and in exhibit 512. The gist of it may, I think, be summarized as follows: (1) the sixteen members of the syndicate paid to the Trust Company $1,000,000 which, eventually, was paid over to the Dominion Textile Company, and beyond this sum of $1,000,000 they assumed, at no time, any financial responsibility whatever in the transaction; (2) while the individual shareholders comprising the majority in each of the four companies assigned their shares to the Trust Company "for the benefit of the syndicate," they did so in consideration of the receipt by them of bonds and preferred stock in the new company; (3) in reality, through the instrumentality of the Trust Company, the syndicate received the majority of the old companies' shares from the persons holding them: they received bonds and preferred stock from the new company in sufficient value to represent the payment to be made for these shares: they handed the old shares to the new company and the new company's bonds and preferred stock to the old shareholders; (4) the syndicate, having acted as just stated, and having paid the new company the sum of $1,000,000 above mentioned, received for themselves from the new company, each member in proportion to the part of the $1,000,000 contributed by him, 5,000 shares of the company's preferred stock of a par value of $100 each and 50,000 common shares also of a par value of $100 each.

In respect to enumeration (3) in the above paragraph, I may say that the bonds issued as there stated amounted to $1,534,500, and the preferred stock to 7,187 shares of $100 each.

The financial risk which the members of the syndicate assumed in entering into and carrying out the venture which culminated in the creation and the putting into operation of the Dominion Textile Company was limited therefore to their $1,000,000 investment. It never exceeded that amount at any time. At the outset this investment gave them preferred stock of the par value of $500,000, and common stock of the par value of $5,000,000.

This transaction was completed in January, 1905. Thereafter, the Dominion Textile Company proceeded to acquire the remaining minority stock in the old companies by dealing with them through the Royal Trust Company without the interposition of the syndicate. This involved the issue of further bonds in the amount of $1,224,500 and of preferred shares in the amount of $503,500; making a total issue of bonds of $2,759,000 and of 12,222 preferred shares of $100 each.

The syndicate's $1,000,000 investment proved unusually profitable. One of the members of the syndicate who was examined in Montreal, said that he had retained all his shares, except some transferred as gifts to members of his family. I do not know whether any of the other members are in this position. The interest on the $500,000 in preferred shares has always been paid. The $500,000 invested in common stock has yielded an average annual return of over 98 per cent, reaching a high point of 150 per cent in several years and never going lower, after the first two years, than 50 per cent. No dividend was paid for the first two years.

A question arose, during the discussion concerning this syndicate, as to the relation of some of its members to the four old companies who disappeared to give place to the Dominion Textile Company. The fact is that no group of any of these formed a majority on the board of directors of any of the old companies. Two were directors of the Montmorency Cotton Mills Ltd. on a board of seven; one of the Colonial Bleaching Company on a board of six; one of the

Dominion Cotton Mills on a board of eight; and one of the Merchants Cotton Company on a board of eight. None of these five men were members of more than one board.

The foregoing recital is interesting particularly because it illustrates one way in which a company's capital structure may be inflated, larger earnings required before real profits are shown, and, incidentally, a plausible case made out for the maintenance of a high tariff. The company dealt with the $4,500,000 represented by the par value of stock issued to the directors in addition to what was sufficient to correspond to actual money invested by them, as an item of "goodwill." Some years later the company decided to place an additional value of $2,094,721.81 on the assets taken over from the old companies: additional, that is to say, to the value at which they had been secured; and they reduced the outstanding charge for "goodwill" by this amount, bringing it down from $4,500,000 to $2,405,278.19. This additional value of $2,094,721.81 applied to the assets of the old companies was arrived at by going back to the book values of these assets kept by the old companies at the time of the sale.

The Commission accountants took objection to this method of building up the amount of capital employed in the company. From what I have heard on both sides of this question, I believe the objection is well taken. In my opinion the figure $4,500,000 does not represent a real investment, and on the other hand, the old book value of the assets ceased to have any significance once the sale was completed.

When I say that the $4,500,000 does not represent a real investment, I do not intend this to mean that the members of the syndicate might not have been entitled, on a proper basis, to some remuneration from the Dominion Textile Company for the services they rendered in helping to bring about the elimination of the old companies and the setting up of the new one. Similar services might have been rendered by an outside financial company and would have been remunerated by some form of payment. Mr. Heward evidently had this in mind when he argued as stated in his factum at page 6:—

"It is not proper, however, to take into account only the tangible assets in the form of plant, machinery, stock-in-trade, etc., represented by the shares of the constituent companies acquired by Dominion Textile Company, Limited, because that company in fact received intangible assets which soon proved to be of considerable value.

"These intangible assets consisted of services in negotiating the acquisition of the shares of the four constituent companies, the selling at par of the bonds and the preferred stock of the new company, the benefit of unified management and control, and of reductions in overhead expense, the elimination of excessive competition among the original companies and similar factors which though intangible are nevertheless of real value and importance."

I will not take time to analyse the different kinds of services recited in this second paragraph, and credited to the syndicate, although the value of some of them might be questioned. Credit taken for "the selling at par of the bonds and the preferred stock of the new company" will hardly stand analysis. I was not asked to place any value on these "intangible assets." The question on the accounting was the justification of the carrying by the company of the whole of this $4,500,000 as "goodwill."

In 1920 the company had an appraisal made of its assets. This appraisal added $10,459,537 to their value. It was made at a time of inflated values. At the annual meeting in 1920, the president of the company said: "During the past few years the cost of building and equipping a cotton mill has increased probably more than that of any other industry." On the basis of this valuation the capital and assets of the company were written up in 1923 by $7,500,000. Just before this was done 25,000 new shares of a par value of $100 were issued to be purchased by the shareholders. On the company's balance sheet for 1922 the common stock is set down at $5,000,000. This represents the original issue of 50,000 shares at a par value of $100 which went to the syndicate in 1905. In 1923 the balance sheet shows the common stock at $7,500,000. This reflects the addition to the original 50,000 shares of the 25,000 shares issued to the shareholders in the financial year 1922-23. In December, 1923, a new company was created under the name of Dominion Textile Company, Limited, to take over the assets and the business of the old company. The shares in the old company were exchanged in the proportion of 3 new no par value shares for each old share of $100. The preferred stock was exchanged share for share. On the balance sheet of 1924 the common stock is shown as 225,000 shares of no par value, valued by the company at $15,000,000. To justify the increase in the value of its common stock in one year from $7,500,000 to $15,000,000, the company points to the appraisal of 1920 which added $10,459,537 to the value of the assets. It is also put forward that this revaluation is justified in part by yearly replacements and betterments paid for out of earnings. But it is only in so far as expenditures so made might be shown to have been taken out of legitimate annual *profits* (as distinguished from charges to operating expenses) that they can be said to constitute a reinvestment in the company by the shareholders.

The last addition to the company's common stock was made in 1929. On that occasion 45,000 no par value shares were issued to the shareholders at $75 per share. This issue increased the total shares to 270,000 and brought $3,375,000 of new money into the company.

The value of the common stock shown on the company's balance sheets since this last issue has remained at the constant figure of $18,375,000.

What the Commission auditors point out is that included in this figure are two items which are unjustifiable for the reasons already shown. These are: (1) $4,500,000 "goodwill" item of 1905 and (2) the $7,500,000 "appraisal" item of 1923.

The Company's accountants do not present their figures under the title of "capital employed." Two sets of figures are given. First, under the title "invested capital on a cost basis," they show $17,983,218, an undetermined part of which is represented by outside investments, which excludes the Company's bonds ($4,457,000) and takes no account of the appraisal of 1920, but includes $2,094,722, the enhanced value put upon the assets of the old companies. Under the title "value of investment as reflected by capital structure," they show $27,820,437. This latter figure again excludes the Company's bonds, but includes the write-up of 1923 made after the 1920 appraisal, and the sum of $2,337,219, represented by the balance of the original "goodwill" item of $4,500,000. The figures are submitted in the Company's exhibit 1232 and are recited in Mr. Heward's factum.

During the course of the argument, Mr. Heward presented other figures which showed first, "investment in manufacturing and working assets on a cost basis" as $18,388,486. This total includes the investment in subsidiary textile companies and the Company's bonds, as well as the $2,094,722, added to the value of the old companies' assets. Under the title "investment in manufacturing and working assets on value of investment," $28,225,705 is shown. This figure includes the write-up of $7,500,000 of 1923 and the sum of $2,337,219, the balance of original "goodwill," referred to above.

The whole of the foregoing presents, I think, all that can be said in respect to the Dominion Textile Company on the subject of "investment" as set out in the Order in Council. The real question is, what amount of money can properly be said to have been "invested" from the point of view of the adequacy of earnings? In my opinion this question is best answered by taking the money and other tangible values received by the Company and adding to these the profits ploughed back into the Company's business. Unfortunately, the accounts do not show what these profits amount to.

Mr. Heward states in his factum that, "viewing the Company's earnings in relation to the value of its investment, its earnings have been entirely inadequate." He concludes that the protection afforded to the textile industry "is not sufficient to assure to that industry a fair yield on its investment having in view the risks involved."

On this last point the records show that the dividend of 7 per cent has always been paid on the Company's preferred shares of a par value of $100. The low quoted price of these shares on the Montreal Stock Exchange in 1937, according to the *Financial Post,* was $135. The Company's common shares, split three to one from $100 to no par value, have never paid less than a dividend of $4 in the last ten years, and this low point of $4 was reached only in 1934. In the other years the dividend was $5, excepting in 1933 when it was $4.75. On the other hand, the highest amount ever paid to the Company for these shares was $75. The yield to those who paid this high figure is therefore 6⅔ per cent at this time.

This history of the Dominion Textile Company calls attention to two practices which serve to distort the true value of investments in a company: the issue of large amounts of shares for so-called "goodwill," and the inflation of the value of assets by appraisals made in times of high prices. A few more examples will help to illustrate how these practices operate.

Penmans Limited was incorporated in 1906 and took over the property and business of the Penman Manufacturing Company.

An agent, acting for a group, purchased the shares of the old company for $350 each		$2,528,400.00
The assets taken over amounted to	$3,103,973.94	
The liabilities assumed amounted to	659,020.60	
Net assets taken over	$2,444,953.34	2,444,953.34
Apparent profit to old company		$ 83,446.66

The assets, less $25,000 shares in Paris Plough Co. (apparently retained by the group) were sold to the new company.

Net assets	$2,419,953.36
Goodwill set up	2,157,216.35
Appraisal (increase in value of assets)	422,830.31
	$5,000,000.00

Purchase price:—

Preferred shares	$1,000,000
Common shares	2,000,000
Bonds	1,500,000
Cash	500,000
	$5,000,000

Thus the company, with no change except that $25,000 shares in Paris Plough, were kept by the group, had its book value increased by $2,580,046.66. That is, shares to this amount were set up beyond the price at which the old company was prepared to sell, after it had taken a book profit of $83,446.66. The increase in book value of the assets between the sale by the old company and the purchase by the new was over 100 per cent.

There are various ways of summarizing the operations of the company:—

(1) On common stock issued wholly for goodwill, an average of over 7½ per cent has been paid in 29 years and, in addition, the book value of the common share equity has more than trebled.

(2) The average of the percentage earned on the progressive total of common share equity was over 7¼ per cent, or over 19 per cent if goodwill is eliminated.

(3) Even in the most favourable light from the Company's point of view, only in four years have the operations been really disappointing, and as far as can be seen the management has never had doubts that it is advantageous to the shareholders for part of the profits to be retained and reinvested to expand the operations.

The Monarch Knitting Co. Ltd. was incorporated in 1912 to take over the business of a company operating under the same name. The balance sheet of the old company on January 15, 1912, showed a total capital and surplus of $781,630. Among the assets was an item of $97,520 for goodwill, contracts and trade marks. In April, 1912, the business was sold to the new company. The capital of the new company consisted of 7,500 cumulative preference shares of $100 each and 12,750 common shares of $100 each. An offering was made to the public of the 7,500 seven per cent cumulative preference shares at $100, carrying a bonus of 15 per cent of common stock, amounting to a total of 1,125 common shares. Of the $1,275,000 par value common shares, $1,045,905 was represented by goodwill, contracts and trade marks.

Dividends on the preference shares were paid regularly from 1912 to November, 1924, but only one month's payment (7/12 per cent) was made in 1925. No further dividends on preference shares were paid until May, 1929, when payments were resumed and continued regularly until November, 1930. Dividends were again suspended in 1931 and payments were not resumed until February, 1934, when a dividend of $3 was paid for the preceding year, while for 1934 dividends amounted to $4. Regular quarterly dividends were resumed on April 1, 1935. As at December 31, 1936, the dividend arrears on preference stock amounted to $50\frac{1}{16}$ per cent. A dividend of $1\frac{1}{2}$ per cent was paid on the common stock for 1912 and 6 per cent for 1913. No further dividends on common shares were paid until 1919 when 4 per cent was paid, and in 1920 and 1921 the dividends were $4\frac{1}{2}$ and 4 per cent, respectively. No dividends have been paid on the common stock since 1921.

The Dominion Woollens and Worsteds Ltd. was incorporated on June 7th, 1928 to acquire the entire assets of Canadian Woollens Ltd. and R. Forbes Ltd. The Canadian Woollens Ltd. was in itself a merger of several companies. When the Canadian Woollens Ltd. was formed in 1919 it secured net assets valued at $2,057,562 while the book value of its assets was placed at $3,498,500. A "goodwill" item of $1,440,938 was entered in the books of the Company.

When the Dominion Woollens and Worsteds Ltd. was formed the following items were adjusted according to the statements filed by this Company with the Commission:

A. Net increase in Fixed Assets due to appraisal	$2,587,285.37
B. Write off Goodwill of Canadian Woollens Ltd	1,440,937.81
Net amount by which asset values written up	$1,146,347.56

The capitalization of the Dominion Woollens and Worsteds Ltd. in 1928 was $2,250,000 first mortgage 20 year 6 per cent bonds which had been sold for $2,070,000 cash and $1,500,000 6 per cent cumulative preferred shares of $100 each issued to Canadian Woollens Ltd. as part payment, and 60,000 common shares of no par value, but recorded at $10 each. No dividends have been paid on either preferred or common shares. The Company showed a profit in 1929 but losses were made in the following years. Interest on bonds was paid from 1929 to 1932, but payment was deferred in 1933, in which year a capital re-organization took place under which the holders of the preferred stock accepted 4 shares of new common stock for each share of preferred and the holders of common stock were given 1 share of new stock for each 4 shares of old stock. In face of continual unsatisfactory operations a further capital re-organization took place in 1935 when, by approval of shareholders and bondholders and confirmation by supplementary letters patent, the bondholders received for each $100 old bond a $50 new bond and 3 shares of new 6 per cent cumulative preferred stock of $20 each par value. No interest was paid on the bonds in 1935 or 1936, but interest accruing from July 1937 became a fixed charge payable January 1st, 1938. Indications have been given in the press that this payment would be made.

As a preliminary to the public inquiry, the Commission auditors sent to all textile manufacturers a questionnaire to be filled in and returned showing all information regarding: the history of the capital structure of each company and of its subsidiary or affiliated companies; complete financial statements including surplus account from the inception of each company; detailed profit and loss accounts, summaries of raw material and inventory data and mill operating and production accounts from 1926 onward; particulars of salaries, wages, etc.; and several other specified subjects, all intended to furnish as complete a statement as possible regarding the company's corporate standing and its business. From the particulars furnished in the answers to the questionnaire, and from further information obtained from some of the companies when occasion arose, the auditors compiled statements showing, among other things, the capital which, in their opinion, might rightfully be said to have been employed in each company from time to time and the profits shown to have been earned.

The result of the method pursued is that we have one hundred and fifty questionnaires returned by as many companies and a great number of auditors statements, all filed as exhibits in the proceedings. The auditors were examined upon their statements by counsel for the industry as well as counsel for the Commission. My remarks in this chapter regarding investments and profits have, as their foundation, these questionnaires and statements and the oral evidence given in relation to them.

Mr. Kellock took exception to some of the methods followed by the auditors in compiling their statements. He objected particularly to the showing of net profit to sales before deducting income tax and bank interest. Mr. Kellock is right in contending that the term "net profits" in each year, means, in a strictly accurate sense, "the fund which for that year was capable of being lawfully applied by the company to the payment of a dividend." But, while on some of these statements, the "net" profit is shown as the revenue from operations without deduction of interest or income tax, these two items of outgoings are clearly set out on the same sheet and are deducted from the total revenue, that is, the revenue from operations and from outside investments. And it must be borne in mind that income tax is payable on all the company's profits, those made from outside investments as well as from operations. Hence the necessity in which the auditors were to set out the particulars as they did. In any event, the figures on the sheets are self-explanatory and nobody reading them can make any mistake as to what is intended to be shown.

The following is a résumé of the condition, which, from the evidence furnished, I find to exist in the various sections of the industry.

Artificial Silk

This section of the industry, which embraces only Canadian Celanese Limited and Courtaulds (Canada) Ltd., the only companies manufacturing exclusively artificial silk, is protected not only by tariffs, but by patents, international agreements and the inherent difficulties in the way of starting a new company in competition with those at present operating. These companies have enjoyed continuous prosperity and high profits. The other companies manufacturing artificial silk goods are included in the cotton, real silk and knitting sections.

Cotton

One company, Dominion Textile Company, Ltd., is outstanding in this section, its sales in 1935 being in excess of the total of the three next largest companies. Further, this company owns a controlling interest in the third largest company, Montreal Cottons Ltd., having the same managing director, same president, sharing several directors and acting as sales agent for that company.

The cotton section has not shown consistent results, but has made high profits at times and some individual companies have shown operating losses in some years. The return on investment has often been very high and expansion through ploughing in profits has been common. The companies as a whole cannot be said to have suffered any great adversity. Bond interest has been met in every case, and dividends on preferred shares have been paid regularly by practically all companies.

Real Silk

The four or five companies which are dominant in this section have made good profits throughout the period, and at times this section has made very high profits. For the ten-year period from 1926 to 1935 inclusive, the Commission auditors show a "net profit from operations to capital employed" of 8·8 per cent. Mr. Kellock contends that the profits actually made by the companies are best arrived at by taking in each case the "net profit (according to his use of that term) as a percentage of the shareholders' equity," and on this basis he shows an annual average for the period of 7·6 per cent.

Wool

Although one company, Dominion Woollens & Worsteds Ltd., is larger, on the basis of sales in 1935, than any two other companies, there is no one company or small group of companies, which dominates this section, and in addition, the companies do not all produce the same lines. Some companies (including two also manufacturing paper makers' felts) have made good profits, some making what may be called a very high rate of return. Others, including Dominion Woollens & Worsteds Ltd., have done badly. This last named company is the only large company in the whole textile industry which has made losses serious enough to cause an arrangement with bondholders and a writing down of capital, as has been stated more fully on a previous page. However, a statement by the president, which appeared in the *Financial Post* of October 23, 1937, indicates that the profits (before depreciation and bond interest are charged) for the year to June 1937 were about twice those for the previous year, and that the bond interest was well covered.

Knit Goods

A large number of companies are contained in this section, one, Penmans Ltd., is much larger than any other, but about a dozen companies are of substantial size. Notwithstanding the facts already related regarding the capital structure of Penmans Ltd., Mr. Kellock's own figures of the returns of this company's operations during the depression years, on the basis of " net profit as a percentage of the shareholders' equity" show that profits fell below 5 per cent in only two of these years, the lowest figure being 2·7 per cent in 1931. Although individual investors in these companies have in the past done very well indeed, the present return on total capital invested does not appear to be unduly high.

Hosiery

About twenty-five companies are engaged in this section. One company, Julius Kayser & Co. Ltd., is outstandingly the largest producer, but there are nine or ten other large companies. As a whole this section has made high profits;

it has also been able to establish an export trade of considerable importance, that is, of about 15 per cent of its production. Referring to this section of the industry, Mr. Kellock says:

> "That is, the successful mills represented in the Commission Auditor's sample earned net profits on shareholders' equity in 1926 of 11·6 per cent, in 1927 of 14·8 per cent, in 1928 of 13·6 per cent and in 1929 of 13·2 per cent. It is submitted that these are not undue returns for manufacturing enterprises of this nature. In 1930 the net profits dropped to 6·4 per cent and were 7·0 per cent in 1931, 5·8 per cent in 1932, 6·6 per cent in 1933, 7·8 per cent in 1934 and 8·4 per cent in 1935. It will be noted that following the increase in the hosiery tariff of 1930 the net profits earned on shareholders' equity were only approximately half of what they were in the 1926 to 1929 period."

Carpets

This section made good profits before the depression. The tariff protection is high and the total capital and labour employed is not very large. The depression struck the industry severely, as its products are of the class of furniture, in which class purchases are more readily deferred in hard times.

Thread

Three companies only are engaged in this section, and the volume of business is low, compared with other sections of the industry. The rate of return on capital employed for this section as a whole is high.

Before leaving this subject, I may point out, as suggested by Mr. Kellock, that during the period of 1923 to 1935 a number of textile companies went out of business. According to an exhibit prepared for the Commission, 248 mills of various kinds—cotton, hosiery, woollen, knit goods, silk and others, with a capital of $39,416,000 commenced operations, whereas 126 mills with a capital of $11,474,000 either ceased operations or were taken over by other companies. This evidence goes to support the assertion that many investments in the textile industry have proved disappointing. But on the other hand, it is, of course, necessary to consider that a Customs Tariff cannot be based on the hypothesis of keeping all manufacturers who commence operations in a state of prosperity regardless of their own ability to succeed. Whatever the conditions of an industry, there will invariably be firms which for one reason or another fail to progress as well as their competitors.

On the whole, the record shows that the textile industry in Canada has fared well. This industry came through the depression period in a manner which many other industries might envy.

I have already said something about the inflation often given to the capital structure of companies by means of so-called " goodwill " charges and the making of appraisals upon re-organization or on the occasion of new issues of stock and have given some examples of cases where these practices were followed. In some cases, these companies have succeeded, despite the inflation, in making profits out of their operations. This would tend to show that in those instances they could, on a proper capitalization, have prospered with less tariff protection than they have received, and that the consumer has been called upon to pay more than ought fairly to have been asked of him. In other cases, the companies have come to grief, and the loss has been borne by those who invested their money on the faith of a capitalization which turned out to be unsound.

Looking to the future, the question arises whether anything may reasonably be done to prevent the organization and the flotation of undertakings which are dangerous, in these respects, from the point of view of the investor, and which furnish, as time goes on, plausible but basically false claims for the maintenance or adoption of unnecessarily high tariffs. The problem is made difficult of solution by the fact that we have in Canada companies incorporated by the authority of Parliament and others by that of Provincial Legislatures. In some provinces investment boards, (by various names), have been created for the protection of the investing public. Having in mind both the investor and the consumer of manufactured goods, (especially of tariff-protected manufactured goods), I suggest that the question of the efficient, comprehensive supervision of these company incorporations is well worth the attention, and possibly the co-operation, of both Dominion and Provincial authorities.

And now a word about the profits of the textile manufacturing companies. Some evidence was offered, and some argument took place, as to the reliability of the statements made by certain companies in respect to their annual profits. It was asserted that by means in some cases of secret inventory reserves, and, in other cases, of improper charges to operations for depreciation, betterments, etc., the true profits were hidden away and not accounted for, for instance, to the income tax authorities. After hearing what was said on this subject, I concluded that the evidence necessitated further action, and I referred the matters in question to the income tax office. I cannot say any more on this aspect of the subject at present because I know that that office is taking all proper steps to ensure the payments to it of all monies justly due, and I have no comment to make while proceedings are pending.

The matter is one, though, which must not be put aside finally. The whole question of company accounting, and of the necessity of providing against possible manipulation in such accounting, demands attention as a result of the evidence to which I have referred. The textile industry is one which is engaged in the production of tariff-protected goods. It is, as has already been said, an industry for the establishment and the development of which the community has consented to tax itself. Speaking at least of such an industry, I must say that I cannot at all agree with the suggestions of secrecy which have been put forward. In my opinion Parliament which provides the tariff has the right, I may venture, I think, to say the duty, to see to it that true facts are made known as often as necessary and practicable, concerning, among other things, the profits made by those who operate under the protection of the tariff. It should be made sure that governments, when approached for tariff changes, will always have reliable figures presented to them, that consumers, (who pay all the manufacturers' taxes in any case because they are all passed on to them in the price of the manufactured goods), should know what is going on, and that shareholders should be furnished with annual statements sufficiently clear and detailed to enable them to form a fair opinion of the value of their shares. Even under the amendments made to the Companies Act in 1934, presumably with this end in view, some of the balance sheets shown me are still quite deficient. They are reduced to the smallest possible compass, and their references to inventories and reserves are of practically no value. Reserves in themselves are not necessarily illegitimate; they may be of use and value, but they should not be kept secret from those entitled to know of them, for instance, shareholders and taxing officials.

The question of costs of production is probably more incapable of satisfactory solution than any of the others raised by the Order in Council. One of the reasons for putting forward this question is that, if susceptible of positive findings, it would assist in the determination of the position of Canadian manufacturers in respect to those of other competing countries. Even if an accurate report on Canadian costs could be made, the problem from a comparative point of view would still be unsolved on account of consideration which would have to be given to many things incapable of mathematical computation, such as the organization of the capital market, the relation of domestic to foreign trade, the condition of life to which workers are used, the social services and amenities, etc.

Leaving the element of comparison to one side and looking merely at the question of determining the cost of production in Canada, I find that even here our manufacturers have not the advantage of accounting system or systems (and it is doubtful whether any such exist) which can reduce costs to a certainty.

Although a good system of accounts would enable a reliable statement to be made as to the costs of all the operations of a company, there seems to be no way in which accuracy as to costs for individual lines of production can be arrived at in the textile industry. According to the best information I have been able to procure, the use of the term " Cost Accounting " has apparently led to a widespread belief that accurate total costs per unit of production can be determined, and some attempt has been made at furnishing such figures. But, except in the very limited number of industries in which companies produce only one product, the chief use of Cost Accounting appears to be as an aid to industrial management.

As to a more detailed examination of the facts relating to different companies, I find that I cannot do better than to adopt and to quote the remarks made on the subject by Mr. McRuer in his factum, beginning at page 247. The Mr. Howson referred to in this quotation is the member of the firm of the Commission auditors who gave evidence on the facts in question.

" It is submitted that the evidence shows that very few of the companies reporting to the Commission keep such records as will enable them to state with reasonable accuracy what their cost of production is for any particular fabric.

" Mr. Howson, in the questionnaire sent out to all the textile mills, had a specific form designed to get from the mills information as to the cost of production. (See Sheets 14A, 14B—14A for the textile companies and 14B for the hosiery and knitting companies—page 12912.)

" The Dominion Textile Company, Limited could not give complete information, and had no means of doing so. It was not able to tie up its standard costs with their actual operating costs. (Pages 12912 and 12913.)

" Canadian Cottons Limited had what was called standard costs, but it was not able to give any information at all because it did not make any attempt to reconcile standard costs with actual costs, and it was not able to give any information as required in the questionnaire.

" Montreal Cottons Limited was practically in the same position.

" In many companies charges for repairs and betterments were charged to profits in one year but for the purpose of costing spread over a period of years. Charges for depreciation in the costs did not relate to depreciation put through from year to year. (Page 12923.)

" Mr. Howson was unable to reconcile the information contained on the cost sheets for different fabrics filed with the Commission with the manufacturing costs of the companies (pages 12923 and 12924), notwithstanding the fact that the companies had endeavoured to assist him to do so and had given every co-operation that they possibly could. (Page 12924.)

" The return of Canadian Cottons Limited to the Commission, in respect to costs, was a blank. There was no possibility of doing anything with Canadian Cottons Limited. (Page 12924.)

" The Montreal Cottons Limited did not make a return at all. (Page 12924.)

" Penmans Limited made a very complete return, but it was subject to wide variations from year to year. (Page 12924.)

" Mr. Howson made a summary for the period from 1926 to 1935 in regard to standard costs and actual costs of Penmans Limited. In some cases the net profit, on the basis of the standard costs, would be greatly in excess of the net profit on the actual cost basis, and in some cases less. The following statement is a comparison of the net profit on the bases of standard cost and actual cost for this ten-year period.

Year	Net Profit on Basis of Standard Cost	Net Profit on Basis of Actual Cost
1926	$ 857,184.54	$668,758.46
1927	1,198,080.96	767,869.77
1928	1,126,621.32	689,061.78
1929	1,090,612.95	597,413.95
1930	566,446.94	332,716.91
1931	388,472.96	315,817.48
1932	152,047.86	290,113.70
1933	247,278.07	455,624.27
1934	547,666.44	471,447.64
1935	440,834.17	419,526.68

(Page 12936)

"In a letter to Mr. Howson, dated the 8th October, 1936 (Exhibit 968), Penmans Limited stated:—

"The 'Cost per Unit' is our Standard or Normal Cost. It is to be definitely understood that the Cost per Unit as shown has no definite relationship to 'Selling Price per Unit.' Our Standard Costs are used for transferring merchandise from one account to another, pricing inventories, and a basis for determining manufacturing losses or gains. Such costs are not used for price setting." (Page 12938.)

"The records of Associated Textiles of Canada Limited were sufficiently complete for Mr. Howson to compare the standard costs submitted as their costs of production with the actual manufacturing costs. Associated Textiles of Canada Limited filed with the Commission certain fabrics, together with cost sheets which were stated to show the cost of production. It, however, appears that the costs of production are much lower than the costs shown on these cost sheets. (See evidence of Mr. Howson, page 12943.)

"On the basis of Company's cost sheets in 1935, the Company showed a loss on operations of $69,000. As a matter of fact, the profit for the year was $140,444, the difference being a gain in the amounts charged to the costs sheets for material, labour and overhead expenses as against the actual cost of these items. The gain was as follows:—

Material	$ 73,740
Labour	67,066
Overhead Expense	68,592
	$209,398

"From these figures it is quite clear that individual costs prepared on the basis used in the cost system, would be substantially higher than the actual costs of production.

"As to the costs, Mr. Cameron of Canadian Celanese Limited, stated (page 10669):—

'We are running the factory as a unit to-day. In any allocation of costs that you get, you might bear in mind that it is a bit of guessing in a factory that is run as a whole unit, which starts as a chemical factory, yarn producing factory, fabrication and dyeing and finishing, and it is all in one unit and labour distribution, where it goes to, is very difficult.'

"The evidence illustrates the difficulty of relating to tariff protection costs of production, as shown by the records of the companies engaged in the industry."

For a further study of this question of costs and of international cost comparisons, I may refer to a chapter in the report of the International Labour Office intituled World Textile Industry (Geneva 1937) beginning at page 203.

CHAPTER VII

SALARIES AND BONUSES

The Order in Council asks for information with respect to salaries and bonuses paid in the industry. The necessary information has been received from the fifty largest of the one hundred and fifty reporting companies. The figures for all these large companies and the totals by sections of the industry of which they form part are as follows, for the years indicated:—

OFFICE, MANAGEMENT AND SALES SALARIES

Year	Cotton		Artificial Silk		Real Silk	
	No. of Firms	$	No. of Firms	$	No. of Firms	$
1930	8	939,381	2	223,158	6	529,667
1931	8	877,888	2	235,812	6	595,252
1932	8	828,782	2	254,955	6	576,443
1933	8	787,445	2	256,282	6	547,372
1934	8	837,884	2	297,976	7	597,805
1935	8	897,113	2	310,324	7	615,014
	Woollen		Knit Goods		Hosiery	
1930	9	236,716	10	558,028*	2	17,000
1931	9	224,236	10	340,132	5	64,723
1932	10	305,421	10	352,173	5	59,973
1933	10	274,794	10	367,175	6	106,259
1934	10	284,521	10	402,079	5	114,006
1935	10	295,280	12	566,024*	5	116,315

* Two Companies reported only in 1930 and 1935.

	Carpets		Paper Makers' Felts		Thread	
1930	3	253,900	1	66,016	1	64,470
1931	3	227,574	2	152,733	1	68,267
1932	3	202,894	2	154,292	1	53,466
1933	3	176,170	2	140,063	1	50,410
1934	3	190,979	2	138,601	1	50,843
1935	3	198,048	2	141,035	1	43,393

All Divisions

Year	No. of Firms	$
1930	42	2,888,336
1931	46	2,786,617
1932	47	2,788,399
1933	48	2,705,970
1934	48	2,914,694
1935	50	3,179,546

The table below shows the salaries paid during a period of years to the principal officials in the companies paying the highest salaries in the several divisions:—

SALARY, BONUS AND OTHER CONSIDERATION

	Fiscal year ended in											
	1925	1926	1927	1928	1929	1930	1931	1932	1933	1934	1935	1936
	$	$	$	$	$	$	$	$	$	$	$	$
DOMINION TEXTILE CO. LTD.—												
President (a)	....	....	25,000	25,000	25,000	25,000	25,000	22,500	20,000	22,312	21,675	21,675
Former Managing Director (b)	....	....	50,000	50,000	50,000	50,000	50,000	42,500	35,000	39,112		
Present Managing Director	....	....	....	5,600	6,700	7,700	7,700	8,530	8,225	10,537	12,240	12,240
Sales Manager	....	....	17,250	17,250	17,250	17,250	17,250	16,937	15,625	15,395	15,953	17,953
Manager Converting Plants	....	....	10,000	10,000	12,000	12,000	12,000	13,000	12,500	11,847	12,740	14,260
General Superintendent—Cotton Mills	....	....	11,000	11,000	11,000	12,668	13,000	12,750	12,500	12,009	12,240	12,240
Mechanical Superintendent	....	....	8,450	8,450	8,450	9,450	9,450	12,837	9,725	12,500	13,240	13,240

NOTE.—In certain cases the amounts given above include payments from subsidiary companies.
(a)—Chairman of the Board 1929 to 1933. (b)—Also President 1929 to 1934 (part).

	1925	1926	1927	1928	1929	1930	1931	1932	1933	1934	1935	1936
MONTREAL COTTONS LTD.—												
President*	....	5,220	5,220	5,220	5,220	....	....	....	....	....	....	
Former Managing Director*	....	....	....	....	....	....	5,000	5,000	....	....	....	
Former General Manager	....	26,000	26,000	26,000	26,000	22,666	10,000†	10,000†	7,000†	6,000†	6,000†	
Present General Manager	....	....	....	....	....	....	....	....	11,100	10,800	10,800	
Sales Manager	....	11,400	11,400	13,791	12,500	12,500	12,500	12,500	11,562	8,437	....	

* Also officers of Dominion Textile Co. Ltd. Amounts are not included in table for Dominion Textile Co. Ltd.
† Retiring Allowance.

	1925	1926	1927	1928	1929	1930	1931	1932	1933	1934	1935	1936
CANADIAN COTTONS LTD—												
President and Managing Director	25,000	26,500	25,500	32,000	22,000	25,500	28,500	28,500	23,625	29,015	29,150	
General Manager	8,400	8,400	9,600	10,000	12,000	12,000	12,500	12,500	12,375	15,765	16,650	
Assistant General Manager	9,000	9,500	9,000	9,000	9,500	9,000	9,500	9,500	8,325	8,900	9,000	
WABASSO COTTON CO. LTD.—												
President	....	....	....	....	....	31,800	26,800	23,529	23,530	23,530	21,030	
Former General Manager	....	....	....	....	....	12,720	12,720	7,748	....	....	....	
Managing Director	....	....	....	....	....	....	12,110	8,060	8,170	8,450	10,160	

NOTE.—Where no amounts are shown no payments were reported due either to the absence of records or to the payments being less than $5,000.

SALARY, BONUS AND OTHER CONSIDERATION—*Continued*

—	Fiscal year ended in											
	1925	1926	1927	1928	1929	1930	1931	1932	1933	1934	1935	1936
	$	$	$	$	$	$	$	$	$	$	$	$
BELDING CORTICELLI LTD—												
President*	...	...	...	...	...	5,220	5,013	...	...	...	5,220	
Former General Manager	...	12,796	14,278	18,240	18,116	17,787						
Vice President and Managing Director	...	9,339	11,943	13,265	12,828	11,981	10,700	13,400	11,775	12,000	15,200	
BRUCK SILK MILLS LTD.—												
President	...	...	...	...	...	...	...	...	...	5,500	...	
Vice President and General Manager	...	...	...	...	7,554	7,840	7,800	7,827	8,827	8,827	10,327	
GROUT'S LTD.—												
Managing Director†	...	13,455	17,943	25,053	23,629	9,864	22,836	7,596	9,029	11,163	16,824	
Secretary-Treasurer†	...	...	5,238	6,660	6,375	5,586	6,217	5,451	5,406	8,298	10,429	
CANADIAN CELANESE LTD.—												
President	...	...	...	10,060	10,060	10,160	10,990	11,280	11,280	19,115	19,200	
Vice President	...	...	...	9,926	20,000	22,500	25,083	27,500	27,500	27,500	35,023	
Vice President	...	...	...	10,060	10,060	10,240	10,970	11,240	11,220	16,635	16,760	
Chairman of the Board	...	...	...	10,040	10,040	10,040	10,850	11,080	11,100	16,535	16,560	
Director	...	...	...	15,314	10,040	10,160	10,850	11,220	11,280	11,655	11,760	
Manager	...	...	...	15,000	16,500	17,500	17,500	17,500	18,000	18,050	19,050	
Official H	...	...	...	8,833	11,500	12,800	11,500	16,000	16,000	17,050	18,050	
COURTAULDS (CANADA) LTD.—												
President	...	...	...	9,817	5,661	...	5,050	5,182	6,498	12,626	9,862	
General Manager	...	5,850	7,000	9,704	10,165	10,449	11,512	11,545	11,874	14,406	13,715	
Sales Manager	...	...	...	...	12,539	12,916	13,384	13,215	12,374	14,906	14,215	
Secretary-Treasurer	...	...	...	5,400	7,932	8,259	9,310	9,336	9,874	12,406	11,715	
JULIUS KAYSER & CO. LTD.—												
Manager	...	...	...	...	...	...	...	10,800	9,720	9,720	9,720	
Sales Manager	...	...	...	...	...	...	...	...	...	12,000	12,000	
SUPERSILK HOSIERY MILLS LTD.—												
President	...	...	...	...	...	...	8,750	8,000	10,000	10,000	10,000	
AYERS LTD.—												
President	...	...	...	...	...	...	36,000	36,000	22,666	20,000	20,000	
Secretary-Treasurer	...	...	...	...	...	...	9,500	10,000	10,000	10,000	10,000	
Felts Sales Manager	...	...	...	...	...	...	6,526	8,000	8,000	8,000	8,000	

*Also President of Canadian Cottons Ltd.
†Amounts in certain years include payments from subsidiary company.

Kenwood Mills Ltd.—											
Vice President and Managing Director	10,870	11,450	13,680	16,639	15,975	16,500	16,950	17,841	22,754	22,738	
Superintendent	6,566	7,935	8,606	9,489	9,052	9,349	9,605	10,110	12,694	12,632	
Official A	7,874	9,096	10,297	11,179	10,649	10,999	10,750	10,900	11,655	11,401	
Brinton Peterboro Carpet Co. Ltd.—											
President	5,000	7,500	9,375	11,874	10,000	10,000	9,500	9,000	9,000	9,916	
Harding Carpets Ltd.—											
President and General Manager	...	...	6,000	7,250	7,000	6,825	6,034	7,416	8,400	10,347	
Toronto Carpets Limited—											
President	8,771	11,910	7,150	10,560	11,959	11,039	9,817	9,051	8,642	7,225	
General Manager	5,145	7,744	10,479	9,634	9,503	9,340	7,882	7,793	11,940	11,772	
Cotton Threads Ltd.—											
President and General Manager	16,500	18,037	25,000	25,000	25,000	25,000	16,666	15,000	15,000	8,000	3,000
Associated Textiles of Can. Ltd.—											
President	...	...	...	...	3,365	13,557	27,600	33,886	27,892	29,901	
Mill Superintendent	...	...	...	...	7,740	10,128	10,846	10,499	10,499	8,999	
Dominion Woollens and Worsteds Ltd.—											
Managing Director	...	...	...	...	...	...	18,000	18,000	18,000	18,000	
Sales Manager	...	...	...	...	...	...	...	4,194	5,416	6,000	
Secretary-Treasurer	...	...	...	...	...	...	...	...	5,000	5,000	
Guelph Carpet and Worsted Spinning Mills Ltd.—											
President and Managing Director	...	...	...	28,627	18,777	21,022	17,290	16,440	19,144	20,969	
Secretary-Treasurer	...	...	...	...	7,000	8,000	8,344	9,500	10,470	10,822	
Paton Manufacturing Co. Ltd.—											
Former General Manager	15,000	15,000	15,000	15,000	15,000	16,000	...	...	...	...	
Present General Manager	...	...	...	...	...	...	12,000	13,000	14,000	14,000	14,000
York Knitting Mills Ltd.—											
Vice-President and Managing Director*	10,537	17,145	5,100	15,341	8,026	15,244	12,090	12,000	12,030	7,606	
Secretary-Treasurer	...	6,532	5,100	7,066	5,376	5,100	5,100	5,100	7,100	6,600	
Woods Underwear Co. Ltd.—											
President	...	...	...	...	...	...	...	...	8,000	8,000	
Director	...	...	...	...	...	12,000	11,217	10,741	10,184	13,000	
Sales Manager	...	5,600	6,100	6,000	6,000	6,750	7,000	7,000	6,000	8,000	
Secretary-Treasurer	...	...	...	...	6,000	6,000	6,000	7,000	6,000	7,450	

* Also President of Woods Underwear Co. Ltd.

Note.—Where no amounts are shown no payments were reported due either to the absence of records or to the payments being less than $5,000.

SALARY, BONUS AND OTHER CONSIDERATION—*Concluded*

—	Fiscal year ended in											
	1925	1926	1927	1928	1929	1930	1931	1932	1933	1934	1935	1936
	$	$	$	$	$	$	$	$	$	$	$	$
MONARCH KNITTING CO. LTD.—												
President and General Manager	....	10,500	15,500	15,500	15,500	13,500	12,000	12,000	12,000	14,500	14,500	
Treasurer	....	5,000	5,500	6,000	6,500	5,333	5,000	5,000	5,000	6,000	6,000	
PENMANS LTD.†—												
Former General Manager	....	20,000	....	....	....	26,750	....	....	....	....	....	
Present General Manager	....	12,500	....	....	....	14,700	....	....	....	....	....	18,000
Secretary-Treasurer	....	10,000	....	....	....	11,300	....	....	....	....	....	9,000
J. R. MOODIE CO. LTD.†—												
President and Managing Director	....	....	....	16,800	....	18,000	....	....	....	....	....	14,600
Treasurer	....	....	....	16,800	....	18,000	....	....	....	....	....	14,600
Sales Manager	....	....	....	16,800	....	18,000	....	....	....	....	....	14,600
JOSEPH SIMPSON & SONS LTD.—												
Chairman of the Board	....	....	....	....	....	....	....	2,500	26,000	31,000	31,000	
President	....	6,000	6,000	5,800	6,000	6,000	6,000	10,500	16,000	16,000	16,000	
Vice-President and General Manager	....	13,500	13,500	13,050	13,500	13,500	13,500	17,500	21,500	21,500	21,500	
EATON KNITTING CO. LTD.—												
Superintendent	....	21,000	22,728	24,265	26,012	27,080	26,480	20,349	15,560	17,310	18,370	
Official A	....	28,425	28,600	28,600	28,600	28,600	28,600	28,600	19,200	18,200	8,750	
Official B	....	14,840	16,568	17,620	18,333	19,400	19,020	14,368	10,880	11,962	12,000	

† In the case of Penmans Ltd. and J. R. Moodie Co. Ltd. payments were reported only for three years.

NOTE.—Where no amounts are shown no payments were reported due either to the absence of records or to the payments being less than $5,000.

Full particulars setting out all salaries paid in these companies will be found in the questionnaire and answers thereto filed in each case.

Respecting bonuses; so far as the evidence goes to show, there have been very few of these paid in the case of textile companies. The largest bonuses I have been given knowledge of were two paid by the Dominion Textile Company in 1921. One of these was a bonus of $35,000 paid to its president for services rendered by him to the Company in the four years, 1918 to 1921, and the other was a bonus of $7,000 paid at the same time and for services during the same period to its vice-president.

In the case of the Associated Textiles of Canada Ltd. of Louiseville, Quebec, I found that bonuses have been paid since 1931 to various officers and officials of the company. These bonus payments amounted to $44,540 for the period 1931 to 1935.

CHAPTER VIII

TRADE ASSOCIATIONS, COMBINATION AND MONOPOLY

The textile industry is organized in three trade associations, the Canadian Woollen and Knit Goods Manufacturers Association, the Cotton Institute of Canada and the Silk Association of Canada; these three associations are united in a federation called the Primary Textiles Institute. After a brief description of the general character of these associations attention will be directed to their two main activities, the promotion of tariff protection and the regulation of competition among their members.

The Canadian Woollen and Knit Goods Manufacturers Association has been in operation for about 18 years. The Association is divided into twelve sections, viz.: Blankets, Carpets, Woollen Cloth, Worsted Cloth, Felt, Fine Hosiery, Heavy Hosiery, Knitted Outerwear, Men's Underwear, Ladies' Underwear, Yarns, Dyeing, Finishing and Processing. Its membership includes 70 firms controlling about 90 per cent of the production. The objects of the Association are stated in Article 2 of its constitution:—

"The object of this Association is to promote by every legitimate means the welfare of the manufacturers embraced within its membership and of the Woollen and Knitting Industry in general. Amongst other means, the following specific methods may be mentioned:—

"(*a*) The promotion of legislation calculated to encourage the manufacture of all classes of woollen and knit goods within the Dominion.

"(*b*) The prevention of legislation adversely affecting the interests of the industry.

"(*c*) The collection of statistics and data covering cost of production of wool in Canada and other countries; productive capacity of mills in Canada; wages paid, capital invested and all such similar information as may be considered valuable; the collection of such information as may be obtained relative to the above conditions in countries other than Canada.

"(*d*) Encouragement of sheep breeding for the purpose of increasing the production of wool in Canada.

"(*e*) Encouragement of technical education in Canada, more particularly as it relates to the different processes involved in the conversion of wool into finished material.

"(*f*) Encouragement of the diffusion of technical knowledge amongst the members and their employees by means of lectures and the publication of special papers provided by authorities on different subjects.

"(*g*) Promotion of export business.

"(*h*) Reconciliation of the interests of the different branches of the industry and the promotion of harmony between them, by which means all energies of the members may be devoted to the common benefit.

"(*i*) Promotion and establishment of more friendly relations between the different manufacturers.

The Silk Association of Canada was reorganized in 1929, having then been in operation for about three years. The organization following closely the lines of the Canadian Woollen and Knit Goods Manufacturers Association, and it was arranged that the Secretary of the "Woollen" association should also act as Secretary of the "Silk" association. The fees collected from its members were turned over to the Woollen Association which in return provided secretarial and stenographic assistance, office space, printing, etc. A joint Committee of the two associations administered their joint finances. The Silk Association is divided into five sections: Broad Silk, Dyeing, Full Fashioned Hosiery, Labels, Throwsters. Neither Courtaulds (Canada) Ltd., nor Canadian Celanese Ltd., are members of the Association; other than these there are very few firms that are not members. The objects of the Association are stated in Article 3 of its constitution:

"The promotion and maintenance of the Silk and Rayon industry of Canada, in all its branches, by concerted and harmonious action, and by the interchange of ideas, and all other proper means. The elimination of unlawful and unfair practices; maintenance of fair and uniform customs and usages; the compilation of information concerning the Silk and Rayon industry, and co-operation with the Government in enforcing laws relative to the trade and in fixing rates of duty for customs tariff."

The Cotton Institute of Canada was organized in 1933. Like the Silk Association, the Cotton Institute appointed the Secretary of the Woollen Association as its secretary and the offices of that Association as its offices. The membership of the Cotton Institute embraces the whole cotton weaving trade. Its objects are stated in Article 2 of the constitution:—

"The object for which this organization is formed is to create a definite body to protect and further the interests of the manufacturers of cotton yarns and cotton cloth in Canada with particular reference to:

"(a) The representation of the industry as a unit in dealing with matters affecting the industry.

"(b) The enhancement of the industry in the estimation of the people of Canada."

The Primary Textiles Institute was organized in 1934 as a more formal federation of the three textile associations which already had a common secretary, a common office and a joint committee for regulating the finances of that office. The membership of the Primary Textiles Institute consists of six members, the President and Vice-president (or two other members appointed for the purpose) from each of the three constituent associations. The objects of the Institute are stated in Article 3 of the constitution:

"The promotion and maintenance of the interests of the primary textile industries in Canada—Wool, Silk, Cotton, Rayon, in all their branches, by concerted and harmonious action and by the interchange of ideas, and by all other proper means."

The offices of the Primary Textiles Institute are at 80 Richmond Street West, Toronto, and at 485 McGill Street, Montreal. The active work of the association is performed by Mr. Douglas Hallam, as Secretary, and Mr. W. M. Berry as Assistant-Secretary.

Many of the manufacturers in the textile industry belong also to the Canadian Manufacturers Association.

The Primary Textiles Institute and the confederated associations, like most trade associations in this country and in other countries where there is a protective tariff, is concerned to secure and to preserve for its members the greatest possible measure of protection. In Chapter I, I have referred to their activities on the question of Japanese competition in artificial silk. They watch the administration of the tariff laws. They prepare briefs for presentation to the Tariff Board and represent the industry in hearings before that Board. Exhibits 455, 496 and 497 are briefs which they presented to the Government in August, 1930, with a view to securing tariff increases. In addition to the corporate action of the Institute, similar action is undertaken by individual manufacturers on their own initiative. An examination of Exhibit 499, which contains correspondence between the Canadian Cottons, Limited and the Minister of National Revenue, reveals that on November 14, 1931, this company proposed certain fixed valuations for the five main types of fabrics which were covered by Appraisers' Bulletin No. 3789 on December 12 of the same year. In a letter dated November 17, 1931, contained in the same exhibit, Dr. A. O. Dawson, president of the company wrote:

"It therefore appears evident that the Government is doing the Canadian consumer a real service when the way is made difficult for the importer of foreign textiles."

This belief that the interests of the consumer may be safely entrusted to the care of Canadian manufacturers was reflected in the evidence of several officials of textile manufacturers. Mr. J. G. Dodd of the Dominion Textile Company and Paton Manufacturing Company said in regard to the activities of the various textile associations that "the consumer was in excellent hands."

In spite of the higher tariffs of 1930 and 1931 and the various administrative measures adopted for the valuation of currencies and of certain lines of textiles, the Canadian manufacturers did not cease pressing for even more drastic policies. In a letter dated March 26, 1932, addressed to the Minister of Trade and Commerce, the president of Canadian Cottons Limited, suggested that to protect the Canadian manufacturer it is necessary "to have a fixed value for duty purposes placed on all standard lines, this value to be not less than the cost of similar goods made in our Canadian mills and factories." But the writer appeared to think that one could both have his cake and eat it, for he went on to say that "if legislation were enacted along the lines suggested the revenue of the Government could be trenmendously increased and the Canadian mills would not longer be subject to what everyone must admit is most unfair competition."

The best way of dealing with the difficulties which these activities may create seems to be that of publicity; publicity as to the source of the propaganda and as to the activities of the propagandist, and publicity as to the affairs of protected industries so that there may be some chance of checking misrepresentation and exaggeration. This is in line with what I say at the end of my remarks on investments and profits in Chapter VI. Some evidence was given of attempts by certain companies to exercise undue pressure upon their employees in times of elections by the circulation among them of written propaganda of an unjustifiable character. It must be pointed out, however, that in these cases the Primary Textiles Institute was not implicated.

A great deal of evidence both oral and written was adduced showing the activities of the Primary Textiles Institute in attempting to regulate, or restrict, competition among its members. These activities may be classified under three general heads; (*a*) the exchange of statistics of production, deliveries, stock on hand, machinery installed, etc. so that in the words of the Secretary of the Institute, "any group will have a real background against which to operate"; (*b*) the arrangement of agreements as to prices; (*c*) the definition of "fair trade" practices and the arrangement of agreements to maintain such practices.

The evidence seems to indicate that these activities were inspired by the difficulties of the depression. They were not successful, and for the most part they seem now to have been discontinued. Nevertheless, in view of a possible recurrence of these activities, it is well, I think, to devote some time to discussing them. Publicity provides a valuable check on the development of monopoly especially in an industry which is looking to the public for approval of tariff favours.

The full fashioned hosiery section of the Silk Association of Canada developed its technique of regulation of prices and competitive practices over a period of six years. In October, 1930, the Silk Association begain to collect weekly returns from the manufacturers of full fashioned hosiery showing the lowest prices, and the terms, at which the order had been accepted, for branded and unbranded merchandise during the preceding week. The prices were tabulated, without the identity of the mills being revealed, and sent out to all the reporting mills. This practice appears to have continued till March, 1932, when a more effective regulation was arranged. Out of the 22 manufacturers of full fashioned hosiery, 17 appear to have entered into a definite agreement for the maintenance of minimum prices. The method followed was for a committee to meet and determine the prices which should be fixed and for each company to send a form letter to Mr. Douglas Hallam, a sample of which is given below, stating its intention to sell at these prices. The form of this letter suggests that they were operating a typical "open price" agreement, an agreement to notify the trade of intended price changes, but in fact the evidence makes it clear that these letters were the means by which the prices arranged at the meetings of the committee were communicated to the trade as a whole, and by which the members signified their acceptance of the agreed schedule.

The following is a sample of the form letters referred to, as set out in Exhibit 568:—

"Owing to the fact that misrepresentations are being made as to prices at which full fashioned hosiery is being sold by mills, and the terms under which it is sold, with the result that the entire industry is being demoralized, we are giving you the lowest prices at which we sell certain specified goods to anybody in Canada under any circumstances. We have no objection to your disclosing these prices to other hosiery manufacturers. We give no undertaking not to decrease or increase these prices as the raw material and labour costs vary, but do undertake to notify you on the day we make such changes so that your information will always be correct and up-to-date as regards our mill.

"Weight of thread based on 13/15 denier weight.

"(1) Our lowest price for full fashioned first quality silk hose, silk thread, cotton top and foot, is not less than $6.15, tax extra, no discount, F.O.B. Mill, net thirty days, any packing.

"(2) Our lowest price for full fashioned first quality silk hose any construction other than six thread cotton top and foot, is not less than $6.35, tax extra, no discount, F.O.B. Mill, net thirty days, any packing.

"(3) Our prices from stock in the west are not less than:—

	F.O.B. Mill	Winnipeg Stock	Vancouver Stock
Six thread..	$6.15	$6.40	$6.45
Other..	6.35	6.60	6.65

All net thirty days, tax extra.

"(4) On discontinued lines of the above, or any other higher priced number, if we sell them for less than the prices quoted, we mark 'Discontinued' and the mark is applied to the foot of each stocking in letters not less than one-quarter inch in height.

"(5) All our full fashioned stockings which are not sold as first class are marked on the foot of each stocking with one of the following words in full: "Sub-standards," "Imperfect," "Irregular" or "Seconds."

In March, 1933, the form of the above letter was slightly changed, the manufacturers agreeing to give fifteen days' notice before any change in price. In July, 1934, the agreement was again revised with a view to closing a number of avenues of evasion; a definition of branded and unbranded was included; the parties agreed to give no commissions, bonuses, rebates, extra goods not invoiced, unearned discounts, advertising allowances, etc.; and in order to insure the observance of these agreements the parties agreed to permit the Secretary of the Silk Association, or a firm of chartered accountants employed by him, to have access to all the records of their full fashioned hosiery business; all discontinued lines were to be stamped and only sold as such after obtaining permission from a committee of the trade and at prices stated in that permit. In July, 1935, an attempt was made to strengthen the agreement by requiring each manufacturer to deposit $1,000 as a guarantee of his good faith. An attempt to revise the agreed prices in July, 1935, apparently failed, and another agreement which was made in the fall of 1935 was cancelled because too few members were prepared to sign it. It appears, however, from the evidence of Messrs. Cook and Thompson, as reported at pages 11213 to 11350, that some form of agreement was in force in May, 1936. None of these agreements covered all the lines of full fashioned hosiery, they were apparently limited to the "sales and low end lines." The number of firms adhering to these agreements varied from eleven to twenty. Counsel for the Primary Textiles Institute has argued that the consumers were not injured by any undue enhancement of prices, for prices were falling and quality improving, the prices agreed on were unprofitable, and the agreements were not, in fact, enforced. But the intention of the agreements was to maintain higher prices than would otherwise have ruled.

In addition to the agreement between the manufacturers of full fashioned hosiery described above, agreements were found to exist in several other branches of the industry, some details of which are given below. In every case the intention to restrict competition is obvious and what has been said above about the full fashioned hosiery agreements applies.

Cotton Yarns

The four large companies which spin the bulk of the yarn sold in Canada, viz.: Dominion Textile Company, Limited, Wabasso Cotton Company Limited, Canadian Cottons Limited and the Hamilton Cotton Company Limited, have an agreement to charge uniform prices which goes back over thirty years. When examined, Mr. Dodd, sales manager of the Dominion Textile Company, described its working in the following manner as reported at pages 11163 and 11164:—

"Q. How is this agreement on yarn carried out? How did you get together on that?—A. The yarn agreement, sir, goes back a good many years, and I think the only way it is carried out is by following the raw cotton market.

"Q. Yes?—A. When some one of us—we all watch the market, of course, naturally, and know what our prices are. If cotton is jumping up very heavily or has accumulated over a period of time, well then, somebody says to the other 'Do you think we had better advance the price?'

"Q. Yes?—A. And if it is thought advisable, if the market has been sufficiently strong that we should advance we do; if not we don't.

"Q. Now, the agreement is that for yarn of the same count and same quality that you will each charge the customer the same price?—A. The same price, exactly."

Woollen and Worsted Cloth

It is clear from the evidence of Mr. Dodd that a number of the manufacturers of woollen and worsted cloth were parties to a price agreement covering blue serges, grey mixtures and piece dyed fancies. Mr. Dodd, who was sales manager of the Paton Manufacturing Company (as well as of the Dominion Textile Company) described the way in which this agreement was arrived at and is reported at page 10884 as follows:—

"Q. Apparently when you held these meetings of the mills in respect to arranging prices you met in Mr. Hallam's office?—A. Correct.

"Q. Did he act as secretary for the meetings?—A. He did at times but usually it was one of our own group who kept track of what we were deciding and then handed the message perhaps to Major Hallam or to one of his secretaries. There was no definite understanding on that, but it is just whatever happened.

"Q. That is the way it worked, at any rate, that after the prices had been arranged, then a memorandum of that would be handed to Mr. Hallam?—A. To Mr. Hallam in his office and sent out.

"Q. And where mills were found to be selling lower than these prices complaints were made to Mr. Hallam, were they not?—A. Exactly.

"Q. That was the arrangement, that he would follow up these complaints and see whether they were justified or not?—A. Right."

Further light is thrown on its working by a study of the correspondence included in Exhibit 1242. In a letter of December 8, 1932, Mr. Hallam wrote to members as follows:—

"Attached is a sheet showing what the mills consider would be fair prices to get for blue and grey serges of specified qualities. The sheet gives high, low and average. Please note the wide variations. This sheet is to form the basis of discussion at the meeting on Tuesday, December 13th."

Then on December 15, Mr. Hallam wrote to Hield Bros. as follows:—

"We have had two meetings of the worsted cloth mills and they are desirous of doing everything possible to stabilize conditions in Canada."

Included with this letter was the standard form letter by which members informed Mr. Hallam that they would not sell below certain prices.

"SUGGESTED DRAFT

"*Personal*

"Douglas Hallam,
"350 Bay Street, Toronto.

"Dear Sir,—Owing to the fact that misrepresentations are being made as to the prices at which men's blue and grey serges are being sold, with the result that the industry is being demoralized, we are giving you the lowest prices at which we sell certain specified goods to anybody in Canada under any circumstances. We have no objection to your disclosing these prices to other manufacturers of blue and grey serges. We give no undertaking not to decrease or increase these prices as the raw materials and labour costs vary, but do undertake to notify you in writing at least three days before we quote or sell below the lowest prices herein given to you, so that your information will always be correct and up-to-date as regards our mill.

"All prices F.O.B. mill. If contracts are quoted other than F.O.B. mill, freight will be added to price. The terms 2% ten days first following. There will be no use of rebates, bonuses, credit notes, etc., which will in effect reduce these prices. Weights given are in Canadian condition.

"(1) *Blue serge,* any construction;

"No cloth listed will be made wider than a maximum of 58 inches overall unsponged.

	20/19	19/18	18/17	17/16	16/15	15/14
Minimum						
Not over 60's..	1.75	1.65	1.50	1.47½	1.40	1.35
Not over 64's..	1.80	1.70	1.60	1.52½	1.45	1.40
64/70's & 70's..	1.90	1.80	1.70	1.62½	1.55	1.50
List Price						
Not over 60's..	1.85	1.77½	1.67½	1.57½	1.50	1.45
Not over 64's..	1.90	1.82½	1.72½	1.62½	1.55	1.50
64/70's & 70's..	2.00	1.92½	1.82½	1.72½	1.65	1.60

"2. *Grey serge* any construction:

"No cloth listed will be made wider than a maximum of 56 inches overall unsponged.

"Before showing samples or quoting on any grey serge over 14/15 not listed, we will notify you as to price we are going to quote.

	18/17	17/16	16/15	15/14
Minimum				
58's (see note)..	....	....	....	1.35
Not over 60's..	....	....	....	1.45
Not over 64's..	1.90	1.82½	1.70	1.50
64/70 or 70's..	2.00	....	....	....
List Price				
58's (see note)..	....	....	....	1.40
Not over 60's..	....	....	....	1.50
Not over 64's..	1.95	1.87½	1.75	1.55
64/70 or 70's..	2.05	....	....	....

"(Note re 58's: One of the mills has a grey serge below 60's. The understanding is that they will supplant this as quickly as possible with a better cloth.)

"We may quote and sell any purchaser at lower prices than the list prices, but not lower than the minimum prices listed.

"(3) At the end of each month we will report promptly to you all sales or allowances on seconds, with the mill number, yardage, customer's name and price. Also the same information as to any job lots.

"Yours truly,
"(Signature of the responsible head of the mill.)"

These manufacturers tried to extend the agreements to other lines of cloth but it was found that there was such diversity of construction of the cloths that a uniform price could not be arranged, but they each sent samples with their prices to the members of the group so that each would know what prices were being quoted on the various cloths. There is also evidence of arrangements between the Paton Manufacturing Company, Limited and Dominion Woollens and Worsteds Limited in respect to large contracts for blue serge uniforms for the trainmen of the Canadian National and Canadian Pacific Railways and the Fire and Police Departments of large cities. (Evidence of Mr. Dodd, pages 10871 *et seq.*)

Underwear (Women's and Children's)

There is evidence of an agreement between the manufacturers of women's and children's underwear, with respect to some of their lower priced lines, similar in form and organization to the full fashioned hosiery agreement. The working of this agreement is illustrated by the following extracts from the examination of Mr. Lundy (General Manager of Penmans Ltd.) by counsel for the Commission, given at pages 9722 to 9724:—

"Q. Now, I want to run over some documents contained in a file here that comes from your files. Here is a multigraphed circular on the letter head of the Canadian Woollen and Knit Goods Manufacturers Association dated April 24, 1933, and addressed to B. K. Gunn, Penmans Limited. It reads as follows:—

"DEAR SIR:

"LADIES UNDERWEAR, FALL 1933

"Owing to misrepresentations being made as to prices at which ladies' underwear is being offered or sold for fall 1933, with results demoralizing to the industry and to the detriment of employees, retailers and manufacturers, I am giving my understanding of your lowest prices on certain merchandises, together with the exceptions.

"I understand that no undertaking is made not to decrease or increase these prices as raw materials and labour costs vary, or to produce lower lines than indicated, but that you do undertake to notify me in writing of any changes you are making fifteen days before announcing any such changes, so that my information will always be correct and up to date as regards your mill.

ITEM A

Cotton vests,—ladies, standard, medium, large
Medium—weight 8 cut 2½ pounds; 10 cut 2¼ pounds.
Cream shade—with plain tubular trim.
Cotton tape for 8 cut; on 10 cut tape optional.
Boxing optional:

	All sizes or	Standard	Medium	Large
No sleeve	$ 2.25	$ 2.00	$ 2.25	$ 2.50
Short sleeve	2.90	2.65	2.90	3.15
Long sleeve	50 cents over short sleeves.			

Rayon silk stripe 40 cents extra.

Exceptions

Lennard 2 pounds, no sleeve for all sizes	$	2.10
short sleeve		2.50

ITEM B

Cotton bloomers—ladies. Standard, medium, large.
Medium weight 8 cut 3¼ pounds; 10 cut 3 pounds.
Cloth as vests under A.
Boxing optional:

All sizes or	Standard	Medium	Large
$2.60	$2.35	$2.60	$2.95

Rayon silk stripe 40 cents extra.

"And they go on and there is an item "C", prices all set out under item "B" in detail, and that is signed by Douglas Hallam."

Mr. Lundy was then examined on the correspondence leading to a revision of the price list in the summer of 1933, and is reported as follows at pages 9728 to 9730:

"Q. I show you a letter from Hallam marked "attention Mr. Lundy" dated June 19th, 1933.

"THE COMMISSIONER: This will be 711.

EXHIBIT No. 711: Letter dated June 19, 1933 to Lundy from Hallam.

Mr. MCRUER: "Dear Sir: *Ladies Underwear Section* Attached is the proposed list of Spring 1934 cotton lines for the Ladies Underwear Section.

Note: The prices on this list are only given as a guide or basis to work on.

A meeting will be called about August 1st at which the mills are to bring samples and at which the prices will be discussed."

Now, Mr. Lundy, apparently this is sent out as a forerunner of a bulletin that would be arrived at as to the prices on which they were to agree?—A. They are suggestions.

"Q. Well, these are suggestions to begin with and then a meeting is to be called. Did you attend the meeting later that the mills attended for the purpose of discussing prices?—A. I cannot remember now, sir, that is three years ago.

"Q. You cannot possibly remember whether you ever attended any such meetings?—A. Oh, I may have attended meetings, but I don't know about this particular one, sir.

Q. Well, did you attend meetings at which prices were discussed and which were agreed upon and a bulletin sent out?—A. I have attended various meetings, sir.

"Q. Now again, would you mind answering my question. Did you attend meetings at which prices were discussed and agreed upon?—A. Certainly prices were discussed, sir.

"Q. And agreed upon?—A. With the limitation that is contained in this correspondence.

"Q. Well, we will just be precise on that; with the limitation that is contained— A. 15 days notice.

"Q. Yes, in the previous correspondence; you are referring to the notice to be given to Mr. Hallam?—A. Precisely.

"Q. And apparently that is how these bulletins were arrived at such as we have looked at in exhibit 710 and 709. A meeting would be called at which the representatives of the mills would attend; you would agree on the prices that were to go in the bulletin and the bulletin would be sent out afterwards?—A. That would be the effect, with the limitation I spoke of. I wish to point out, however, that there are very few names mentioned there in this previous correspondence.

"Q. Well— A. There are quite as many other manufacturers.

"Q. You mean there were certain manufacturers who were not attending at these meetings, and who were not agreeing to these prices?—A. They were not even consulted, I don't think.

"Q. They were not even consulted about it, yes; but, you must admit that Moodies, Penmans and Zimmerknit represent a very large amount of the knitting trade?—A. We make standard lines, sir, carrying trade marks."

One further sample of the correspondence between Mr. Lundy and Mr. Hallam may be cited from page 9736:—

"The attached memorandum was approved at the meeting of the Ladies' and Children's Underwear Section on August 16th.

"The situation with respect to more uniform wholesale lists and credit terms was thoroughly discussed.

"A special meeting on this subject will be held on Tuesday, September 11th, 1934, at 2 p.m. D.S.T. at this office.

"For this meeting it will be necessary for each member to know the volume of underwear business done with each of the customers on the lists already sent in.

"Will you please be prepared with this data on underwear for the last year.

"Kindly advise us that your firm will be represented at the meeting on September 11th."

Mr. Lundy gave evidence that these agreements were still in effect. (Evidence page 9734).

Children's Sleepers.

There is evidence that the manufacturers of these sleepers met to discuss prices, and to make agreements with respect to prices and that subsequently bulletins were sent from the Primary Textiles Institute to the manufacturers stating the agreed prices.

The following extracts from the correspondence contained in the exhibits illustrates the character of the agreement. Exhibit 708 is a letter from Mr. Hallam to H. W. Lundy, dated December 16th, 1935, and reads as follows:—

"Arrangements have been completed whereby Children's Fleece Lined Sleepers for Fall 1936 will be listed at the following prices:—

Sleeper is made on a basis of 5¼ pounds, for size 5 and is sold in sizes 1 to 6 at the prices mentioned.

Plain Garment without pocket—5.70 per dozen.

Garment with pocket or with pocket and transfer in same—5.90 per dozen.

"These goods are as a rule, boxed ½ dozens, but if wanted papered in one dozens, no change in these prices is to be made."

Letter No. 6 in Exhibit 1238 from Mr. Hallam dated November 2nd, 1935, addressed to Mr. A. Dods, Dods Knitting Co. Limited, Orangeville, Ont., reads as follows:—

"A meeting of the manufacturers of children's fleece sleepers is being arranged on or about December 1st, to discuss fall prices for 1936. Have you any suggestions in regard to this matter. The other manufacturers inform me that present prices will remain in effect till the proposed meeting takes place."

Worsted Machine Yarn.

There is evidence that the spinners of yarn have met periodically to discuss prices and to make agreements with respect to prices and that subsequently memoranda were sent out from the Primary Textiles Institute. (e.g. Exhibit 573). The spinners also reported to the Institute all contracts for the sale of yarn with the prices ruling.

Hand Knitting Yarn.

There is evidence of a price agreement between the spinners, administered by the Primary Textiles Institute. (Exhibit 587.) No details were elicited.

Towels.

There is evidence of an arrangement between the manufacturers of towels, whereby they work out their prices on the same basis. This agreement was also operated through the office of the Primary Textiles Institute. (Evidence page 10891).

Carpets

There is evidence of agreement between the four carpet companies in Canada. These companies employed a chartered accountant, K. A. Mapp to establish a uniform costing basis, discount lists and price structure.

In a letter to the Commission dated November 19, 1936 (Exhibit 1192), Mr. A. E. Cuthbertson, President of the Harding Carpets Limited, explained their action as follows:—

"It is obvious that the Canadian Mills had difficulty in operating on only $2,200,000 production. Consequently, and inevitably, they indulged in serious price cutting, each in the effort to obtain as much business as possible. The result was not only disastrous to profits, and dividends were passed, but threatened capital structures. In an effort to put a stop to this destructive price cutting, the four principal mills—Brintons, Guelph, Hardings and Toronto Carpets—met in March 1934, with the idea of establishing a uniform costing basis, discount list and price structure, along the lines of the British Carpet Manufacturers' Association. In this way they hoped to escape the fate of the many Ontario furniture factories, who went bankrupt, due to similar conditions."

Broad Silk

In 1932 a survey of the capacity of the industry was made by a firm of chartered accountants with the intention of impressing each member with the danger of over-production. Monthly reports of deliveries, production and stock-on-hand were commenced and the moral was apparently sometimes pointed, as for instance in the circular sent out from the Silk Association's office in May, 1932, and filed as Exhibit No. 606:—

"Is there over-production? If so, is there a cure? How about a shut down for an agreed period? Could anything be done about night shifts? Would you attend a meeting to discuss this matter?

"The same situation some time ago faced the full-fashioned hosiery industry. They contemplated an all round shut down for a month. Before doing so other measures were adopted which cured the situation and no shut down was necessary.

"Any opinion you express on this matter will be treated as confidential."

In addition to these attempts to limit competition attention must be drawn to two cases of monopolies existing through patent rights.

Acetate Yarns

Canadian Celanese Limited has a monopoly of the production of cellulose acetate yarns in Canada. Frequent complaints have been made by Canadian weavers who have been unable to secure supplies of acetate yarn except at prohibitive prices from Canadian Celanese, or from foreign sources on payment of a prohibitive duty. The result is to give Canadian Celanese a very strong monopoly position in the market for this type of fabric. The findings of the Tariff Board in April, 1936, in this matter deserve attention:—

"(1) That the prices charged by the Canadian Celanese Company in 1935 were completely out of line with the prices of similar yarn in the United States of America and the United Kingdom.

"(2) That the process carried on by the Canadian Celanese Company of producing cellulose acetate yarns as an integral part of the process of manufacturing artificial silk should not be considered as commercial production of acetate yarns in Canada."

The duties on single yarns were reduced under the British Preferential schedule to 5 per cent, with no spécific duty, but the old specific and *ad valorem* duties continue to apply under the Intermediate and General Tariffs.

Viscose Yarns

Courtaulds (Canada) Limited are the sole manufacturers of viscose yarn in Canada. They do not weave cloth. Because of their monopoly the company could apparently take full advantage of the tariff protection if it desired to do so. On this, however, the Tariff Board says:—

". . . . the price of viscose yarn in Canada in the most used counts shows little variation from the price of such yarn in the United States and in the United Kingdom. Canadian prices are higher on the less used counts than the comparative United States and United Kingdom prices."

The Primary Textiles Institute and its federated associations have existed for some time. The oldest of them, the Canadian Woollen and Knit Goods Manufacturers Association, began its operations about 18 years ago. It is not suggested that these bodies should not remain in existence, but the foregoing pages show the direction in which their activities tend: the maintenance of a high protective tariff, and in some degree, the regulation of trade and of the competition of Canadian firms in the home market. So long as recourse is had to legal methods only in the pursuit of these activities, all that can be done in the interests of the consuming public is to ensure the giving to them of all due publicity. Parliament has already set a limit beyond which restrictive trade activities may not travel. For instance, we have section 498 of the Criminal Code, the Combines Investigation Act, Sections 15 and 17 of the Customs Tariff Act, and section 4 of the Tariff Board Act.